

RatingsDirect®

Summary:

Snohomish County School District No. 2 (Everett), Washington; School State Program

Primary Credit Analyst:

Carl J Hargreaves, San Francisco (1) 415-371-5089; carl.hargreaves@standardandpoors.com

Secondary Contact:

Chris Morgan, San Francisco (1) 415-371-5032; chris.morgan@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Snohomish County School District No. 2 (Everett), Washington; School State Program

Credit Profile		
US\$48.0 mil unltd tax GO rfdg bnds ser 2013 due 12/01/2020		
Long Term Rating	AA+/Stable	New
School Issuer Credit Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' enhanced long-term rating and 'AA' school issuer credit rating (ICR) to Snohomish County School District No. 2 (Everett), Wash's series 2013 unlimited-tax general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA+' enhanced long-term rating and underlying rating (SPUR) and 'AA' school ICR on the district's previously issued GO bonds. The outlook is stable.

The 'AA+' enhanced long-term rating reflects our view of the district's participation in the Washington School Bond Guarantee Program. The rating is equivalent to, and moves in tandem with, the state GO rating.

The school district ICR reflects our view of the district's:

- Strong local economy with above-average wealth and incomes,
- Community support for operations as displayed through approximately 24% of general fund revenue generated from a voter-approved maintenance and operations (M&O) levy, and
- Low-to-moderate debt burden with rapid amortization.

Partly offsetting the above strengths, in our view, is the district's drawing down of the general fund balance to the board-established minimum 5% of expenditures.

The bonds secured by the district's full faith, credit, and resources. The district has covenanted that while the bonds are outstanding, it will annually levy ad valorem taxes on property within the districts, without limitation as to rate or amount, sufficient to pay principal and interest when due.

The district, located approximately 25 miles north of Seattle, provides kindergarten through 12th-grade educational services for a total estimated population of 132,000 within the cities of Everett and Mill Creek and unincorporated portions of Snohomish County. A diverse mix of businesses, including aircraft producer Boeing, electronics manufacturers, and a regional hospital, support the local economy, with additional activity stemming from the Everett naval station and Everett's deepwater port. After four years of declines in assessed value (AV), which lowered the district's AV by a total of 30%, preliminary AV numbers for 2014 show a sharp increase of approximately 10.4%, bringing total AV to \$13.1 billion. This increase puts estimated AV per capita, a measure of wealth, at approximately \$100,000, which we consider extremely strong. Household effective buying income is also very strong, in our opinion, at 133% of the national level. The City of Everett's unemployment rate for 2012 was slightly above the state's at 8.5%.

The district's full-time equivalent (FTE) student enrollment, the primary driver of operating revenue under the state funding system, has remained relatively stable during the past five years, totaling 17,760 for 2013. Management projects that enrollment will increase by 7.2% by 2017, partially as a result of increases in elementary school enrollment and, as of Oct. 1 the district is outpacing its budgeted enrollment by 98 students.

Despite the district's planned drawdown on reserves in 2013, total available fund balance has remained at a level we consider good, and management plans to increase reserves in coming years. After two years of operative surpluses increasing the district's reserves, the district drew down total fund balance, as budgeted, to 5.1% of expenditures in 2013, just above the board-established minimum of 5%. Of this balance, 4.2% is designated as unassigned funds. The district has budgeted for a \$600,000 surplus in 2014 that it can use to rebuild reserves, and management reports that it could use anticipated additional state funding stemming from the *McCleary v. Washington State* ruling to build reserves. The district has strong community support and derived approximately 24% of its general fund revenue in 2012 from a voter-passed M&O levy. This levy is scheduled to expire in 2014, and the district plans to bring a replacement four-year M&O levy to voters in February of 2014. Although the availability of this revenue after fiscal 2014 is uncertain, given that voters may not approve the proposed M&O levy, the strong history of voter support for past M&O levies suggests that the district will likely receive the majority vote needed to pass the levy. The district also receives a building and technology levy for capital projects through 2016 that generates an additional \$8 million annually.

We consider the district's management practices "good" under our financial management assessment (FMA) framework. A FMA of "good" indicates our view that practices exist in most areas although not all may be formalized or regularly monitored by governance officials. A highlight of management's practices is the board's policy to maintain total general fund balance at 5.0% of expenditures and unassigned balance at 2.5%, which, while uncommon for school districts in the state, is a strength in our view.

Overall net debt is low as a percentage of market value at 2.5% for 2014, and moderate on a per capita basis at \$2,476. The district's debt has a rapid amortization schedule, with 92% of debt retiring within the next 10 years and all debt within the next 11 years. Characteristic of such rapidly maturing debt, the district has an elevated debt service carrying charge at 12% for audited 2012. The district plans to request voter approval for a new bond issue during the February 2014 election, with the amount of the issues estimated at \$259 million to \$317 million.

The district participates in three pension programs: the Teachers' Retirement System, the Public Employees' Retirement System, and the School Employees' Retirement System. In fiscal 2012, the district contributed \$9.1 million toward these pension programs, or approximately 5.5% on non-capital total government expenditures. The district also has an other postemployment benefit (OPEB) plan administered through the state's health care authority. The district participates in this OPEB plan for only its retired employees, as the district's self-insurance covers current employees for medical and life insurance. In 2012 the district contributed \$1.5 million, based on its estimated retiree benefit amount, of its \$4.8 million annual required contribution.

Outlook

The stable outlook reflects our view of the strength of the local economy and district's maintenance of good reserves. Should the district's total fund balance drop below the board-established 5% policy, the proposed 2014 M&O levy measure not pass, or the district increase its debt burden such that our opinion of its debt as a percentage of market value and net debt per capita significantly worsens, we could lower the rating. We do not anticipate raising in the next two years.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

Ratings Detail (As Of October 11, 2013)		
Snohomish Cnty Sch Dist #2 Everett unlmted tax GO & rfdg bnds ser 2008		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed
Snohomish Cnty Sch Dist No. 2 Everett GO		
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Snohomish Cnty Sch Dist #2 Everett unltd tax GO rfdg bnds ser 2004 dtd 03/01/2004 due 06/01/2004 2008-2013 & 12/01/2004 2013		
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Snohomish Cnty Sch Dist #2 Everett GO		
<i>School Issuer Credit Rating</i>	AA/Stable	Affirmed
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL