

ISSUER COMMENT

6 December 2018

RATING

General Obligation (or GO Related) ¹

A1 No Outlook

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Mason County School District 309 (Shelton), WA

Annual Comment on Shelton SD

Issuer Profile

Mason County School District 309 (Shelton) is located in western Washington and is headquartered in the City of Shelton, approximately 15 miles northwest of Olympia. The county has a population of 61,060 and a low population density of 64 people per square mile. The county's median family income is \$60,661 (3rd quartile) and the September 2018 unemployment rate was 5.5% (4th quartile) ². The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

Credit Overview

Shelton SD's credit position is solid, and its A1 rating is slightly under the US school districts median of Aa3. The notable credit factors include a healthy financial position, a sizable tax base, a sound wealth and income profile, a mid-ranged pension liability, but a very heavy debt burden.

Finances: Shelton SD has a strong financial position, which is favorable when compared to the assigned rating of A1. The district's cash balance as a percent of operating revenues (15.3%) is lower than the US median, and increased between 2013 and 2017. In addition, fund balance as a percent of operating revenues (12.1%) is materially below the US median.

Economy and Tax Base: The economy and tax base of the district are satisfactory and are aligned with the assigned rating of A1. Shelton SD's full value per capita (\$67,890) is consistent with the US median, and it declined from 2013 to 2017. Furthermore, the total full value (\$1.6 billion) is consistent with other school districts nationwide. Lastly, median family income is just 86.2% of the US level.

Debt and Pensions: Overall, the debt and pension liabilities of Shelton SD are inflated. However, they are weak in relation to its A1 rating. Moody's-adjusted net pension liability to operating revenues (1.6x) is consistent with the US median, and grew between 2013 and 2017. Moreover, net direct debt to full value (4.4%) is significantly higher than the US median.

Management and Governance: Washington school districts have an Institutional Framework score ³ of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source is from enrollment based state funding. Although school districts do not have an operating property tax levy, they may seek voter approval for supplemental property tax levies for maintenance and operations or capital. Unpredictable

revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Washington has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Washington School Districts

Washington school district funding will continue to improve due to the effects of the State Supreme Court ruling in the 2012 case *McCleary v. State*, in which the court found the state was not fulfilling its paramount constitutional duty to fund basic education. Associated legislative changes will lessen the dependence of districts on local voter support, though voters have tended to support local school districts with supplemental property tax levies and bonding authority. Given their limited penetration, charter schools are not a significant credit pressure. Unions have a strong presence, creating long-term pressure that limits the ability of most districts to build substantial reserve positions. Pension costs are not a significant credit weakness as overall fixed costs remain manageable.

EXHIBIT 1

Key Indicators ⁴ ⁵ Shelton SD

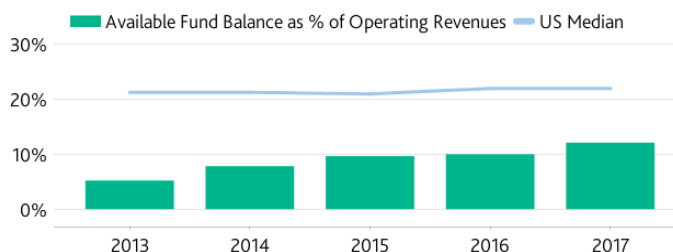
	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$1,692M	\$1,603M	\$1,615M	\$1,620M	\$1,638M	\$1,906M	Stable
Full Value Per Capita	\$72,583	\$68,147	\$68,217	\$70,130	\$67,890	\$84,623	Weakened
Median Family Income (% of US Median)	86%	87%	86%	86%	86%	102%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	5.2%	7.8%	9.7%	10.0%	12.1%	22.0%	Improved
Net Cash Balance as % of Operating Revenues	6.1%	8.9%	11.8%	13.0%	15.3%	26.8%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.4%	1.4%	1.2%	1.1%	4.4%	1.5%	Weakened
Net Direct Debt / Operating Revenues	0.52x	0.45x	0.39x	0.32x	1.25x	0.71x	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.6%	4.0%	5.1%	5.8%	5.6%	2.9%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.00x	1.33x	1.64x	1.68x	1.60x	1.42x	Weakened
	2013	2014	2015	2016	2017	US Median	
Debt and Financial Data							
Population	23,316	23,526	23,679	23,106	24,140	N/A	
Available Fund Balance (\$000s)	\$2,339	\$3,782	\$4,911	\$5,564	\$6,977	\$8,985	
Net Cash Balance (\$000s)	\$2,715	\$4,301	\$5,974	\$7,234	\$8,815	\$10,862	
Operating Revenues (\$000s)	\$44,756	\$48,229	\$50,756	\$55,512	\$57,555	\$41,251	
Net Direct Debt (\$000s)	\$23,357	\$21,878	\$19,770	\$17,779	\$72,151	\$28,020	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$44,701	\$64,317	\$83,147	\$93,269	\$91,941	\$55,897	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody.com for the most updated credit rating action information and rating history.

EXHIBIT 2

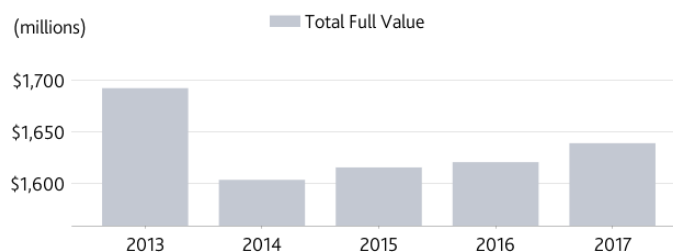
Available fund balance as a percent of operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

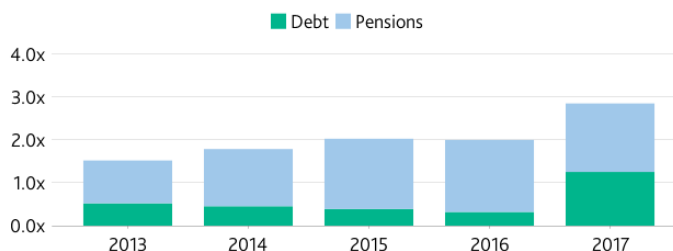
Full value of the property tax base was stable from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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