USD 261
HAYSVILLE SCHOOLS

Memo

TO: Haysville Board of Education

FR: Dr. Clint Schutte, Associate Superintendent of Business & Finance

DA: March 22, 2021

RE: Moody's Ratings Report

History / Relevance: We use Moody's to give the district a rating for any Bond sale or refinancing. In September of 2020, the district received a rating of A1. Moody's adjusted their K-12 methodology in the interim and put 637 K-12 school districts on notice credit rating review. The notice included over 60 Kansas K-12 school districts. Haysville received a new credit rating of A2. This rating is a one-step downgrade from the previous rating (see attached current rating).

What: The new K-12 methodology covers US K-12 school districts and their debt instruments previously covered under US Local Government General Obligation Debt and Lease, Appropriations. The school districts' ratings that have been placed under review may change due to the analytical factors in the new K-12 methodology (see attached methodology).

Why: This is a normal process within the industry to adjust methodologies to ensure a complete comparison among similar institutions. This has been part of Moody's operating practices.

Where: Committee review of district financial standing using the new methodology took place after a ratings call with the district and Bond Brokers.

When: This rating took place in February, and the rating was issued on March 4, 2021. (see attached opinion)

How: Moody's issued the credit opinion and public press release as part of the standard operating procedures.

Who: Dr. Clint Schutte Associate Superintendent for Business & Finance,

How Much: Zero cost to the district currently. Future costs will be reflected during bond sales and refinancing.

cls

MOODY'S INVESTORS SERVICE

DATA REPORT
26 January 2021

Rate this Research

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Local government – US

US K-12 school district methodology scorecard inputs for 2021

In this publication, we provide a list of scorecard inputs, including institutional framework (IF)[1] scores and certain notching factors,[2] for school districts rated under our US K-12 Public School Districts Methodology. Under the methodology, we use the scorecard as a reference tool that can be used, in most cases, to approximate credit profiles and explain factors important in assigning issuer-level ratings. The scorecard-indicated outcome for any given credit in the US K-12 School Districts sector is not expected to match the actual rating for each issuer, which is determined by a rating committee and incorporates other considerations, assessed outside of the scorecard.

» **We have assigned institutional framework scores for school district sectors in 42 states.** For the 2021 review, we assigned IF scores to rated school district sectors in 42 states. The IF score carries a 10% weight in our K-12 scorecard. A school district's IF prescribes how the bulk of a school district's operating revenue is determined. This framework affects a school district's ability to match recurring revenues with operating expenditures. A school district's revenue framework is established by its state and, notably, most IF scores are Aa or A.

» **Most school districts in a given state have the same IF score, with few exceptions.** In some states, such as California and Illinois, certain school districts operate under materially different revenue frameworks and thus may receive different IF scores than most other districts in the state. For example, most California school districts' major revenue sources are determined by the state and have an IF score of A, whereas certain "community funded" school districts' revenues are primarily derived from local property taxes at a level above the state-guaranteed minimum funding. For these California school districts, we have assigned a higher IF score of Aa.

» **We have assigned a notching factor for school district sectors in four states**. The K-12 scorecard includes a notching factor for "Potential cost shift to or from the state." In assessing the likelihood of a state shifting material costs toward or away from school districts in the state, we typically perform this assessment on a statewide basis once a year. In 2021, we apply downward notching for this factor for Connecticut, Illinois, Kentucky and New Jersey school districts, driven by contingent risks associated with state pension support. These states make pension contributions on behalf of school districts, most often for teachers' pension plans, and school districts' pension liabilities would be outsized and/or annual costs would impose a significant financial burden if shifted from the state.

K-12 institutional framework scores updated for 2021

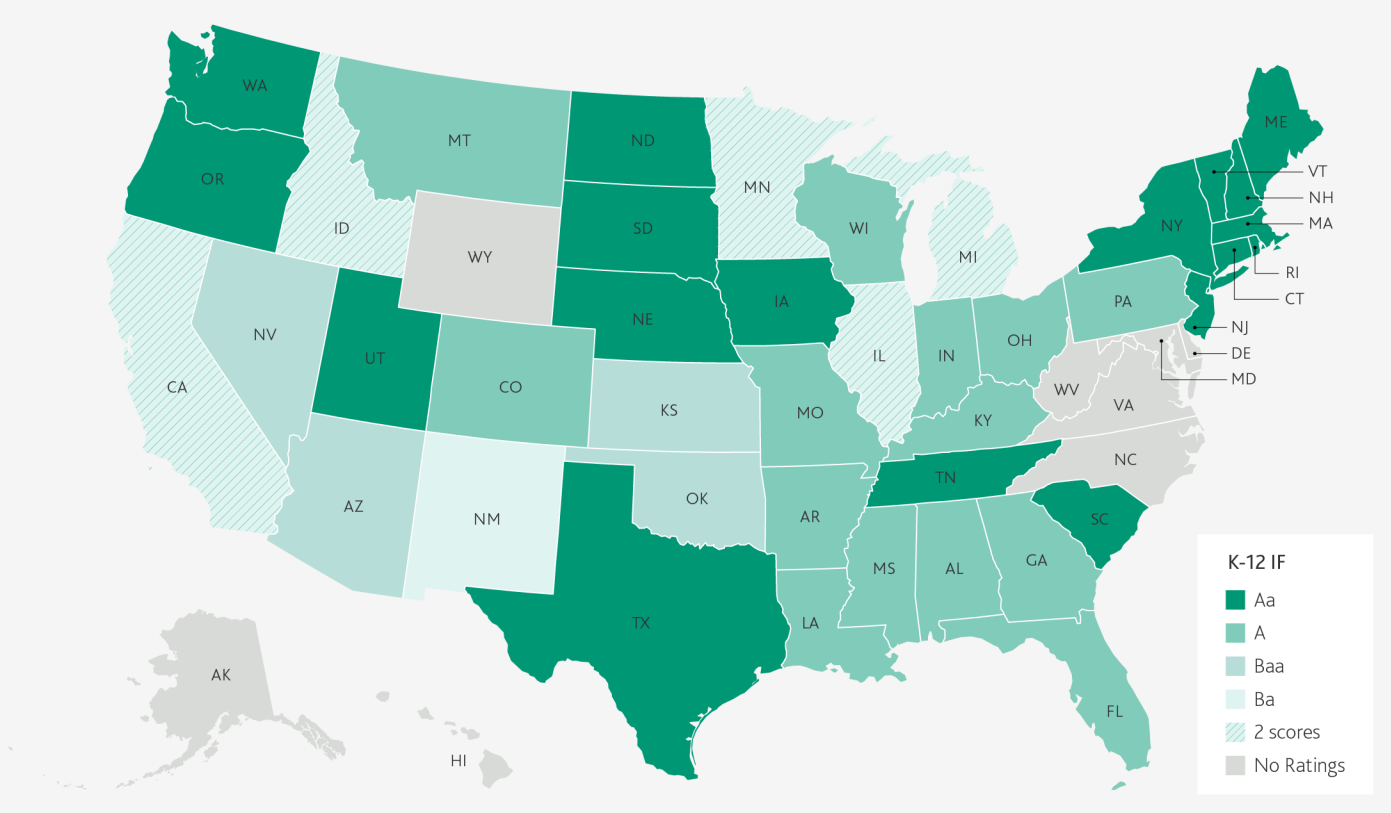
A school district's institutional framework (IF) under the K-12 methodology focuses on the state framework under which operating revenue is determined.

A school district's K-12 IF is established by the state's constitution, laws or court decisions and is important because it prescribes how the bulk of a school district's operating revenue is determined. In our assessment of this qualitative factor, we consider whether the state allows the bulk of a school district's operating revenue to be determined at the local level or if the state itself determines the bulk of a school district's operating revenue. We also consider the limits and hurdles imposed on the school district's ability to raise revenue.

We hold internal deliberations at least annually and in 2021, we have established IF scores for rated school district sectors in 42 states. Most school districts in a given state typically receive the same score for this factor, except where the revenue framework of some school districts in the state is materially different from others (see Exhibit 1). For a complete list of the 2021 IF scores, see Appendix A.

Exhibit 1

K-12 institutional framework (IF) scores



In some states, certain school districts operate under materially different revenue frameworks and thus may receive different scores (e.g., California, Idaho, Illinois, Michigan and Minnesota).

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.moodys.com for the most updated credit rating action information and rating history.

K-12 standard notching factors updated for 2021

The K-12 methodology scorecard includes a notching factor, "Potential cost shift to or from the state," which may result in upward or downward adjustments to the preliminary outcome from the four weighted scorecard factors. In assessing the likelihood of a state shifting material costs toward or away from school districts in the state, we typically perform this assessment on a statewide basis once a year. We consider the state's budgetary position, spending priorities and political incentives to provide or reduce financial support for education and school districts. We also consider whether any shift in material costs is likely to be temporary or long-lasting, and whether it indicates a secular trend.

In 2021, we apply downward scorecard notching for "Potential cost shift to or from the state" to Connecticut, Illinois, Kentucky and New Jersey school districts, driven by contingent risk associated with state pension support (see Exhibit 2). Several states make pension contributions on behalf of school districts, most often for teachers' pension plans. For K-12 sectors where pension liabilities would be outsized and/or annual costs would impose a significant financial burden if shifted from the state to school districts, we have applied downward notching to reflect this contingent risk.

Exhibit 2

Standard scorecard notching factors

State	Sector	Notching Factor	Notch
Connecticut	School districts	Potential cost shift to or from the state	-0.5
Illinois	School districts	Potential cost shift to or from the state	-1.0
Kentucky	School districts	Potential cost shift to or from the state	-0.5
New Jersey	School districts	Potential cost shift to or from the state	-0.5

Source: Moody's Investors Service

Appendix A

Exhibit 3

K-12 IF scores

State Name	Sector	2021 Institutional Framework
Alabama	School districts	A
Arizona	School districts	Baa
Arkansas	School districts	A
California	School districts (LCFF)	A
California	School districts (community funded)	Aa
Colorado	School districts	A
Connecticut	School districts	Aa
Florida	School districts	A
Georgia	School districts	A
Idaho	School districts (regular revenue authority)	A
Idaho	School districts (special revenue authority)	Aa
Illinois	School districts (tier 1 and 2)	A
Illinois	School districts (tier 3 and 4)	Aa
Indiana	School districts	A
Iowa	School districts	Aa
Kansas	School districts	Baa
Kentucky	School districts	A
Louisiana	School districts	A
Maine	School districts	Aa
Massachusetts	School districts	Aa
Michigan	School districts (regular)	Baa
Michigan	School districts (intermediate)	A
Minnesota	School districts (regular)	A
Minnesota	School districts (intermediate; ed cooperatives)	Baa
Mississippi	School districts	A
Missouri	School districts	A
Montana	School districts	A
Nebraska	School districts	Aa
Nevada	School districts	Baa
New Hampshire	School districts	Aa
New Jersey	School districts	Aa
New Mexico	School districts	Ba
New York	School districts	Aa
North Dakota	School districts	Aa
Ohio	School districts	A
Oklahoma	School districts	Baa
Oregon	School districts	Aa
Pennsylvania	School districts	A
Rhode Island	School districts	Aa
South Carolina	School districts	Aa
South Dakota	School districts	Aa
Tennessee	School districts	Aa
Texas	School districts	Aa

State Name	Sector	2021 Institutional Framework
Utah	School districts	Aa
Vermont	School districts	Aa
Washington	School districts	Aa
Wisconsin	School districts	A

In some states, certain school districts operate under materially different revenue frameworks and thus may receive different scores (e.g., California, Idaho, Illinois, Michigan and Minnesota).
Source: Moody's Investors Service

Moody's related publications

Rating Methodology

» US K-12 Public School Districts Methodology, January 26, 2021

Cross Sector Rating Methodology

» Adjustments to Pension and OPEB Data Reported by GASB Issuers, Including US States and Local Governments Methodology, October 7, 2019

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

1 A school district's institutional framework prescribes how the bulk of a school district's operating revenue is determined. This framework affects a school district's ability to match recurring revenues with operating expenditures.

2 The scorecard includes notching factors, which may result in upward or downward adjustments to the preliminary outcome that results from the four weighted scorecard factors.

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MOODY'S
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Moody's Rating Methodology: US K–12 Public School Districts Scorecard

Scorecard version as of: Jan2021.0001 | **Obligor Name: Sedgwick County Unified S.D. 261, KS** | **MDC Number: 800034969** | **Fiscal Year: 2020**

	WEIGHTS	INPUT	SCORE	Aaa	Aa	A	Baa	Ba	B	Caa	Ca
ECONOMY											
Resident Income (MHI Adjusted for RPP / US MHI)	10.0%	111.0%	0.28	>=120%	100 - 120%	80 - 100%	65 - 80%	50 - 65%	35 - 50%	20 - 35%	<20%
Full value per capita (full valuation of the tax base / population)	10.0%	$49,858	0.90	>=$180,000	$100,000 - $180,000	$60,000 - $100,000	$40,000 - $60,000	$25,000 - $40,000	$15,000 - $25,000	$9,000 - $15,000	<$9,000
Enrollment trend (three-year CAGR in enrollment)	10.0%	1.3%	0.25	2 - 4%	0 - 2% or >4%	(2) - 0%	(5) - (2)%	(8) - (5)%	(11) - (8)%	(14) - (11)%	<(14)%
FINANCIAL PERFORMANCE											
Available fund balance ratio (available fund balance / operating revenue)	20.0%	12.8%	1.28	>=25%	17.5 - 25%	10 - 17.5%	5 - 10%	0 - 5%	(5) - 0%	(10) – (5)%	<(10)%
Net cash ratio (net cash / operating revenue)	10.0%	14.7%	0.56	>=25%	17.5 - 25%	10 - 17.5%	5 - 10%	0 - 5%	(5) - 0%	(10) – (5)%	<(10)%
INSTITUTIONAL FRAMEWORK											
Institutional Framework	10.0%	Baa	0.90	Aaa	Aa	A	Baa	Ba	B	Not applicable.	Not applicable.
LEVERAGE											
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	20.0%	141.1%	0.38	<=125%	125 - 250%	250 - 400%	400 - 550%	550 - 700%	700 - 850%	850 – 1,000%	>1,000%
Fixed-costs ratio (adjusted fixed costs / operating revenue)	10.0%	11.3%	0.13	<=15%	15 - 20%	20 - 25%	25 - 30%	30 - 35%	35 - 45%	45 - 55%	>55%
NOTCHING FACTORS											
Additional strength in local resources		0.0	0 to +2								
Limited scale of operations		0.0	-1 to 0								
Weak financial reporting		-2.0	-2 to 0								
Potential cost shift from state		0.0	-1 to +1								
Potential for significant change in leverage		0.0	-2 to +1								
Total Factor Notching		-2.0									

Scorecard Indicated Outcome: A3

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MOODY'S INVESTORS SERVICE

CREDIT OPINION
4 March 2021

Rate this Research

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Sedgwick County Unified School District 261, KS

Update following downgrade of GO to A2

Summary

Sedgwick County Unified School District 261 (Haysville), KS's (A2) credit profile is supported by a positive three-year enrollment trend, above average resident income, and the leverage ratios are below the national A2 median. The district does not have a reported pension obligation because the state makes full on-behalf contributions for the district's pension obligation, and the OPEB liability (implicit rate subsidy) is not reported. Cash reserves stabilized in fiscal 2020 following several years of drawdowns, though they are well below the state and national medians. Further, the district's ability to generate meaningful additional local revenue is very limited because it is levying at the state-imposed caps for the capital outlay fund and the supplemental general fund. The district's financial reporting does not disclose a modified accrual-based fund balance, other post-employment liability, capital asset values or depreciation, and this is a material weakness of the credit profile.

On March 3, we assigned an A2 issuer rating and downgraded the district's general obligation unlimited tax (GOULT) rating to A2 from A1.

Credit strengths

» Positive three year enrollment trend

» Below average leverage and fixed-costs ratios

Credit challenges

» Below median cash reserves with very limited ability to raise additional revenue for operations and capital

» Weak financial reporting

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt.

Factors that could lead to an upgrade

» Significant increase in cash

» Strengthening of financial reporting that does not uncover additional credit weaknesses

Factors that could lead to a downgrade

» Weakening cash in the operating funds

» Erosion of economic indicators or weakening enrollment trend

» Increase in long-term liabilities or fixed costs

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.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Sedgwick County Unified School District 261 (Haysville), KS

	2017	2018	2019	2020	A Medians
Economy					
Resident income	112.8%	111.0%	111.1%	N/A	97.0%
Full value ($000)	$1,003,958	$1,040,512	$1,083,716	$1,132,449	$1,102,651
Population	24,092	23,584	24,048	N/A	10,946
Full value per capita	$41,672	$44,119	$45,065	N/A	$76,753
Enrollment	5,648	5,780	5,815	5,879	1,922
Enrollment trend	N/A	N/A	1.5%	1.3%	-0.5%
Financial performance					
Operating revenue ($000)	$61,233	$58,979	$61,971	$65,996	$28,791
Available fund balance ($000)	$10,925	$8,734	$7,845	$8,442	$6,246
Net cash ($000)	$12,283	$9,702	$8,900	$9,683	$6,998
Available fund balance ratio	17.8%	14.8%	12.7%	12.8%	21.5%
Net cash ratio	20.1%	16.4%	14.4%	14.7%	25.9%
Leverage					
Debt ($000)	$111,504	$107,077	$102,510	$98,400	$22,054
ANPL ($000)	$0	$0	$0	$0	$43,073
OPEB ($000)	N/A	$1,471	$0	$0	$4,504
Long-term liabilities ratio	N/A	184.0%	165.4%	149.1%	296.7%
Implied debt service ($000)	$8,637	$8,282	$7,890	$7,474	$1,516
Pension tread water ($000)	$0	$0	$0	N/A	$1,410
OPEB contributions ($000)	N/A	$0	$0	$0	$211
Fixed-costs ratio	N/A	14.0%	12.7%	11.3%	13.1%

For definitions of the metrics in the table above please refer to the US K-12 Public School Districts Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published K12 Median Report.
Sources: US Census Bureau, Sedgwick County Unified S.D. 261, KS's financial statements and Moody's Investors Service

Profile

The district serves the City of Haysville (A3) and is located adjacent to and south of Wichita (Aa2 stable). The district operates 13 schools and has a current enrollment of approximately 5,700.

Detailed credit considerations

Economy

The economy will remain stable given its proximity to employment opportunities in Wichita and ongoing residential development. Management reports there are expansions in five subdivisions that will add approximately more than 100 homes over the next couple of years; the price range of new homes is between $150,000 and $250,000, though one subdivision is constructing homes above $350,000. Management reports the affordability of the area, as well as the district's special education curriculum, is driving modest population and enrollment growth.

The district's three-year CAGR in enrollment is 1.3% (through fiscal 2020), and management expects the modest increase to continue given the new residential construction. Although enrollment was down by about 100 students at the start of the fiscal 2021 school year, management reports that it has increased by about 125 since August.

Financial operations

The financial position has been challenged in recent years and operating fund cash balances are about half the state and national A2 medians. Declines over the past several years were because of growing special education costs, cash funded capital projects and one-time bonuses to employees in 2017. Positively, reserves increased slightly in fiscal 2020 and they should be flat in fiscal 2021. Over the next few years, the district will increase cash in the capital outlay fund by about $1.3 million and has a goal to increase cash in the contingency fund to about $4 million from $1 million. We expect that growing special education costs will continue to be a challenge.

We consider the district's general, supplemental general, capital outlay, special education, contingency reserve and bond and interest funds to be the main operating funds of the district. In fiscal 2020 (June 30 year-end), the district's aggregate unencumbered operating cash balances increased by $597,000, which brought available reserves to $8.4 million or 12.8% of revenue. Most of the cash lies in the bond and interest fund ($6.9 million) and the contingency fund ($1.1 million).

Management reports that fiscal 2021 revenue is trending close to budget and some expenses are under budget. State aid makes up about 85% of the district's total operating revenue, and it is stable this year because most of the aid is based on the prior year's enrollment. Further, federal aid is helping the district offset pandemic-related costs and is contributing to financial stability.

Leverage

The district's leverage ratios are below the national medians and this is a strength of the credit profile. The fixed-costs ratio is 11.3% and the long-term liabilities ratio of 141.1% of operating revenue is comprised solely of debt because the district does not have reported pension or OPEB liabilities. The district has no debt plans over the next several years because major capital needs were financed with Series 2015 and 2016 bond proceeds. Minor capital projects will be financed pay-as-you-go from the capital outlay fund.

Legal security

The district's GOULT debt is a general obligation of the district payable from ad valorem taxes which may be levied without limitation as to rate or amount upon all taxable tangible property, real and personal, within the territorial limits of the district.

Pensions and OPEB

The district participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple employer defined benefit pension plan, and the state makes full on-behalf contributions for the district's pension obligation. Therefore, the district has no adjusted net pension liability under Moody's methodology. The statutes do not permit the district to contribute additional amounts toward the plan.

The district has an implicit rate subsidy for other post-employment benefits, but the audited financial statements do not quantify the cost of the subsidy.

ESG considerations

Environmental

The district, by virtue of its location in southern Kansas, is exposed to natural hazards. The district has high risk to heat and water stress and medium risk to extreme rainfall.

Social

Social considerations such as demographics, labor force, income and education are material considerations that influence the district's economy, demographic, financial and leverage trends. Resident income (adjusted for regional price parity) is 111% of the US median, but full value per capita is weak at about $50,000. Population estimates show a 6% increase since 2010. The unemployment rate in Sedgwick County was higher than the state and national rates as of November.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The district has capably managed finances and operations through the pandemic by shifting to distance learning when required to do so by local public health authorities and otherwise implementing hybrid learning models.

Governance

The district is governed by a seven-member Board of Education with members elected at large to staggered four-year terms. The superintendent is the chief administrative officer responsible for the day to day operations of the district.

Kansas school districts have an Institutional Framework score of Baa. The state controls the bulk of district revenue through the total foundation aid formula, which provides a fixed amount of funding per student. The formula is funded primarily through a state mandated 20-mill ad valorem levy, with the state contributing to the balance. The current funding formula calls for regular modest increases to state aid, though in the recent past the state has cut funding or held it flat. Most districts cannot generate meaningful additional locally determined revenue because of property tax caps that limit levies to 30% of total state aid, or 33% of state aid with voter approval, as well as up to 8 mills for capital outlay with voter approval.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 2

Sedgwick County Unified School District 261 (Haysville), KS

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	111.1%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	49,858	10.0%	Baa
Enrollment trend (three-year CAGR in enrollment)	1.3%	10.0%	Aa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	12.8%	20.0%	A
Net cash ratio (net cash / operating revenue)	14.7%	10.0%	A
Institutional framework			
Institutional Framework	Baa	10.0%	Baa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	141.1%	20.0%	Aa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	11.3%	10.0%	Aaa
Notching factors			
Weak financial reporting	-2.00		
Scorecard-Indicated Outcome			A3
Assigned Rating			**A2**

Sources: US Census Bureau, Sedgwick County Unified S.D. 261, KS's financial statements and Moody's Investors Service

Appendix

Exhibit 3

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Census Bureau of Economic Analysis
Full value ($000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue ($000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ($000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash ($000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt ($000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL ($000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB ($000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service ($000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water ($000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions ($000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of metrics listed above please refer to the US K-12 Public School Districts Methodology.

Source: Moody's Investors Service

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NOTICE

March 5, 2021

Issuer/Obligated Person: Unified School District No. 261, Sedgwick County, Kansas (Haysville) (the **"Obligated Person"**)

Event Reported: Rating Change

Bonds: All rated general obligation bonds

Pursuant to a report dated March 3, 2021, Moody's Investors Service, Inc. ("Moody's") changed its rating on the Issuer's general obligation bonds, as shown on the following table:

Previous Rating	New Rating
A1	A2

Additional information about this rating change may be obtained by consulting the reports issued by Moody's and any subsequent reports relating to the Obligated Person.

The information contained in this notice has been submitted by the Obligated Person pursuant to contractual undertakings the Obligated Person made in accordance with SEC Rule 15c2-12. Nothing contained in the undertaking or this notice is, or should be construed as, a representation by the Obligated Person that the information included in this notice constitutes all of the information that may be material to a decision to invest in, hold or dispose of any of the securities listed above, or any other securities of the Obligated Person.

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UNIFIED SCHOOL DISTRICT NO. 261, SEDGWICK COUNTY, KANSAS (HAYSVILLE)