Rating Action: Moody's assigns Aa2 to Denver City and County S.D. 1, CO's COP Series 2020; outlook stable

13 Dec 2019

Aa1 GOULT rating affirmed

New York, December 13, 2019 -- Moody's Investors Service has assigned a Aa2 to the Denver City and County School District 1, CO's $49 million Certificates of Participation, Series 2020. Concurrently, we have also affirmed the district's Aa1 general obligation unlimited tax (GOULT) rating and the Aa2 rating on outstanding certificates of participation (COP). The outlook is stable.

RATING RATIONALE

The GOULT rating of Aa1 incorporates the substantial growth in the district's service area over the recent past, which has translated to rapid tax base expansion, improving resident wealth levels, and positive demographic trends. The growth in both taxable values and revenues has moderated both debt and pension leverage, even as the district has continued to issue new debt for facility needs. Further tempering balance sheet leverage is the recently passed pension reform, which moderates the pension burden further, though low annual contributions remain a weak point for the credit. The Aa1 is further supported by a sophisticated management team that maintains consistent reserves, and strong local support for district initiatives, bolstering revenues.

The Aa2 certificates of participation rating is one notch below the district's GO rating, and reflects the general credit characteristics of the district, as well as the legal provisions of the COP, including the annual non-appropriation risk and the high essentiality of the leased facilities.

RATING OUTLOOK

The stable outlook reflects the expectation that the Denver economy will continue to expand at a healthy rate over the near to medium term, and that state funding will continue to improve with the improved economic conditions. The stable outlook also reflects that 2018 pension reform at the state level will benefit the district over the long term, but elevated ongoing contribution gaps will persist for the foreseeable future.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant improvement of available operating reserves over a sustained period
- Further reduced debt burden and/or improved pension metrics relative to the tax base and operating revenues
- Significant improvement in annual pension funding

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Significant and sustained drawdown of reserves below policy levels
- Significant debt issuance resulting in a materially increased debt burden or debt-related general fund expenditures
- Material increase to the pension burden

LEGAL SECURITY

The district's GOULT debt is secured by an unlimited property tax pledge. General obligation debt is secured by state statute, and property taxes dedicated to GOULT bonds are directly remitted by the county to the trustee.

The 2020 COP is secured by the base rental payments paid by the district associated with an underlying stand-alone lease of essential district facilities. The lease term must be annually renewed and appropriated by the
district for the term of the COP. The indenture does not require the maintenance of a reserve fund. The district’s previously issued COP’s are similarly structured, with leases that must be annually renewed and appropriated, and are backed by essential district assets with no debt service reserve fund.

USE OF PROCEEDS

Proceeds of the COP will reimburse the district for facility upgrades and fund certain energy efficiencies investments.

PROFILE

Denver Public Schools is the largest school district in the state with a student population of approximately 93,000 as of the 2019/20 school year. The district boundaries are coterminous with the city and county of Denver (Aaa stable), which serves as the capital to the state of Colorado (Aa1 stable).

METHODOLOGY


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