Bond Case Briefs

Municipal Finance Law Since 1971

Fitch: Nevada School District Reorg Plan May Hike Credit Risk.

Fitch Ratings-New York-06 November 2015: Clark County, NV, School District's ('A', Stable Outlook) reorganization plan presents mid-term risks, Fitch Ratings says. District reorganization plans might present uncertainties for bondholders – as a 2010 restructuring in Utah did – because the resulting distribution of property taxes, potential limits of future bond issuance, and operating environments of the smaller districts are unknown. Several steps must occur for a reorganization to take effect. Therefore in the short term we expect there to be no impact on Clark County School District.

Nevada Assembly Bill 394 requires that an advisory committee submit a plan to reorganize the Clark County School District to the State Board of Education by Jan. 1, 2017. The bill requires the committee to consider a number of issues, including equitable funding, the authority to issue bonds and raise revenues, and personnel contracts and collective bargaining. The school district superintendent has outlined a proposal to break the district into seven local precincts. The plan calls for continued centralization of operational departments with each precinct having flexibility on instructional issues. Under either a true district division or a hybrid scenario, Fitch expects outstanding debt to continue to be payable from the current levy that includes the taxable property of the entire school district.

However, new entities could emerge, each with a portion of the tax base and with potentially different tax rates. Depending upon the size and scope of the potential reorganization, precincts could have different operational aspects, including management and financial policies and practices. A reorganization plan could also affect the recent reauthorization of the district's 10-year, $4.1 billion rolling bond program under which taxable property is assessed at $0.55 per $100 of AV. The program comes after several years in which the district lacked the capacity to issue bonds and in response to continued deferred maintenance and a backlog of new construction needs.

A district reorganization occurred in Utah when voters approved a ballot measure to break up the previous Jordan School District (ULTGO rated 'AAA' Stable Outlook) into two districts in 2007. The new district, Canyons School District (ULTGO rated 'AAA' Stable Outlook), began operations in fiscal 2010 under a separate school board. Following modest credit uncertainty at the time of the break-up, Fitch's ratings recognize the strength of each district's operations and the tax base from which the bonds are repaid.

Bonds issued prior to the breakup continue to be payable from the proceeds of unlimited ad valorem taxes levied on the taxable property of the prior combined district. Each district's separate tax levy for the debt is set according to the size of their respective annual debt service repayment. The resulting revenues are restricted solely for the purpose of repaying those bonds, alleviating bondholders' mid-term risks of the reorganization. Any other use would be against state law.

Contact:

Shannon Groff
Director
US Public Finance
+1 415 732-5628
650 California Street
San Francisco, CA

Rob Rowan
Senior Director
Fitch Wire
+1 212 908-9159
33 Whitehall Street
New York, NY