SCHOOL BOARD MEETING REPORT

Board Meeting Date: 5/20/2014 **Agenda #** ______

Staff/Administrator: Lisa Cross **Superintendent:** Patricia Adams

Type of Item: [X] *Informational* [ ] *Action*

Please state your proposal briefly and clearly. What do you want the board to know, discuss, or decide?

The Three Rivers School District bond rating has been downgraded to A1 by Moody's Investor Service.

Provide history/background information on your proposal.

In 2001, the district received a rating of A3. Sometime after that, Moody's performed a global migration, upgrading all rates to Aa3. During a recent rating update, the Three Rivers School District was downgraded to Aa2. The primary factor contributing to this downgrade was the percentage of fund balance to revenues being below the US School District Median; In June 2013 the Three Rivers School District had a 5.5% ending balance and the US School District Median for Aa3 was 20.4%.

List the advantages of your proposal:

n/a

List possible disadvantages of your proposal:

n/a

List possible alternatives that could also offer a solution to your proposal. Why were they not recommended?

n/a

Superintendent's recommendation(s): **Approve:** Yes [ ] No [ ]

TRSD FORM BD-615
Revised 5/9/2014

SB U:\Forms\board report form

MOODY'S
INVESTORS SERVICE

Rating Update: Moody's downgrades Josephine County Unit Joint School District (Three Rivers)'s, OR G.O. bonds to A1 from Aa3

Global Credit Research - 07 May 2014

Approximately $15.0M in debt affected

JOSEPHINE COUNTY UNIT JOINT SCHOOL DISTRICT (THREE RIVERS), OR
Public K-12 School Districts
OR

Opinion

NEW YORK, May 07, 2014 --Moody's Investors Service has downgraded Josephine County Unit Joint School District (Three Rivers)'s, OR general obligation bonds to A1 from Aa3. The rating action affects $15.0 million in Moody's rated debt. The bonds are secured by an unlimited property tax pledge of the district.

SUMMARY RATING RATIONALE

The downgrade reflects the district's narrow, albeit stable, financial position. The district has historically maintained limited General Fund reserves; however, the district is being outpaced by similarly-rated credits. The rating further incorporates the district's large and stabilizing tax base, manageable debt and pension burdens, and weak socioeconomic profile.

STRENGTHS

-Stable tax base

-Management's willingness to make expenditure cuts

-Increases in state funding expected in near-term

CHALLENGES

-Protracted, narrow reserve levels

-Weak socioeconomic profile

DETAILED CREDIT DISCUSSION

NARROW FINANCIAL PERFORMANCE TO IMPROVE IN FISCAL 2015

A main driver of the rating downgrade is the district's narrow reserve position, which has been limited since fiscal 2011. While the finances are stable, General Fund balance and cash reserves are far below state and national medians. The district is being outpaced by its peers, and no longer fits into the Aa3 rating category.

The district reported an operating deficit in fiscal 2013, drawing down General Fund balance to $2.1 million, or a limited 5.5% of revenues, from $2.8 million, or 7% of revenues. Officials report the deficit is due to increases in PERS contribution rates. In prior years, the district covered rate increases with monies in the PERS Reserve Fund. However, that fund was zeroed out in fiscal 2012, forcing the district to utilize General Fund reserves. Of note, the district has access to approximately $600,000 in additional liquidity in the Self-Insurance Fund that can be used for general operating purposes, if necessary. Moving forward, the district has budgeted for increases in PERS to ensure structurally-balanced operations.

Positively, the district is on-target to realize a balanced budget for fiscal 2014. The district is expecting a flat ending General Fund balance of $2.1 million, or narrow 4.9% 2014 budgeted revenues. Officials report balanced or surplus operations are expected for fiscal 2015: the district is anticipating an additional $2.1 million in state aid, with plans to set aside $110,000 to begin to rebuild reserves. Additionally, after several years of enrollment decline, the district's enrollment has stabilized in fiscal 2013 at approximately 4,500 students. The district anticipates stable enrollment moving forward.

The district has made efforts to reduce expenditures. In fiscal 2013, the district realized $1.2 million in savings through instituting five furlough days, freezing COLA increases and reducing two staff positions through attrition. Similarly, in the current year, the district cut $1.1 million from the budget by maintaining five furlough days, closing a school, freezing COLA, and reducing the number of transportation routes. For fiscal 2015, due to projected increases in state funding levels, management plans to forgo additional cuts: the proposed budget restores the furlough days and increases staffing levels by eight FTEs.

The district's finances are expected to improve; however, while finances are relatively stable, fund balances are significantly less than medians. Future credit reviews will focus on the district's ability to return to, and maintain, structurally balanced operations moving forward. Failure to grow reserves and cash balances to levels comparable to A1-rated peers will place further downward pressure on the credit rating.

STABLE TAX BASE EXPERIENCING GROWTH IN 2014

The district is located in southwestern Oregon, seven miles south of City of Grants Pass (Aa3/NOO). The district serves Josephine County (A1/NEG) and a small portion of Jackson County (Aa2/NOO). Residents have limited job opportunities in the district's rural service area, which is reflected in high unemployment rates of 11.1% compared to the state's 7.8% as of January 2014. Additionally, wealth indices are weaker than peers, with per capita income and median family income reported at 80% and 77% of US, respectively, per the 2011 American Community Survey (ACS). Positively, officials report that the economy is slowly recovering: a lumber mill in Cave Junction, a neighboring town, is reopening after closing in 2012. Concurrently, GoPro Cameras is expanding their call center.

The district's tax base is stable, and sizeable compared to state peers. In 2014, the district's AV saw growth of 3% to $3.7 billion, up from $3.6 billion in 2013. Likewise, real market value (RMV) increased to $4.4 billion from $4.3 billion, the first growth since 2008. The tax base is not concentrated, with top ten taxpayers comprising 3.4% of 2013 assessed value (AV). Full value per capita is $91,570, which is in-line with similarly rated credits.

MANAGEABLE DEBT PROFILE; NO PLANS TO ISSUE DEBT IN MEDIUM TERM

The district's direct debt burden is slightly below-medians at 1.0% of 2013 assessed value. Principal payout is average at 72.5% retired in ten years. All of the district's debt is fixed rate, and the district is not party to any derivative agreements. The district has no authorized but unissued debt. Current facilities are adequate to accommodate student enrollment; however, officials note that many buildings are over 50 years old, and in need of renovation and remodeling. Moving forward, the district plans to evaluate capital needs, and decide how best to finance these requirements.

The district participates in the Public Employees Retirement System (PERS), a cost-sharing multiple-employer, defined benefit retirement plan sponsored by the state. The district's combined annual required contribution (ARC) for the plans was $3.8 million in fiscal 2013, or 8.9% of total operating expenditures. Moody's adjusted net pension liability (ANPL) for the district is $142.6 million, or a somewhat elevated 2.17 times operating revenues for fiscal 2012. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability in proportion to its contributions to the statewide plan.

WHAT COULD MAKE THE RATING GO UP

-Maintain structurally balanced operations

-Grow General Fund balance back to levels comparable to peers

-Continued tax base growth

WHAT COULD MAKE THE RATING GO DOWN

-Continued deficit operations

-Inability or unwillingness to grow reserves to healthy levels

-Large tax base declines

KEY STATISTICS

Full value, 2013: $4.4 billion

Full value per capita, 2013: $91,570

Median family income: 77% of U.S.

Available fund balance, FY 2013: 3.3% of operating revenues

5-year change in fund balance: -6.38% of operating revenues

Net cash, FY 2013: 4.8% of operating revenues

5-year change in net cash: -7.92% of operating revenues

Institutional framework: A

5-year average of operating revenues / expenditures: 0.99x

Net direct debt burden % of full value: 1.00%

Net direct debt burden / operating revenues: 1.10x

3-year average Moody's adjusted net pension liability % of full value: 1.95%

3-year average Moody's adjusted net pension liability / operating revenues: 2.17x on gross basis

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Heather Correia
Lead Analyst
Public Finance Group
Moody's Investors Service

Patrick Liberatore
Additional Contact
Public Finance Group

Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

© 2014 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. ("MIS") AND ITS AFFILIATES ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATION") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO,

COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

MIS, a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MIS have, prior to assignment of any rating, agreed to pay to MIS for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Shareholder Relations — Corporate Governance — Director and

Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.