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Moody's New Rating Methodology for US School Districts

Announcement of New Methodology and Pending Rating Reviews

On January 26, 2021, Moody's Investors Service (*"Moody's"*) announced it had published a new methodology for rating US public school districts that provide education or educational services, typically from pre-kindergarten or kindergarten through 12th grade (K-12). Under the new methodology different criteria will be used to rate school district debt rather than using the criteria that is used to rate local governmental debt. The four main criteria on the scorecard under the new methodology for school districts are: economy, financial performance, institutional framework and leverage. For further information regarding the methodology see US K-12 Public School Districts Methodology on www.moodys.com (free registration is required).

In connection with the new rating methodology, Moody's expects that about 20% of existing US school district ratings will be placed on review for possible rating changes, with about 9% expected to be reviewed for upgrade, about 7% expected to be reviewed for downgrade and for about 3% the direction of the change is uncertain. At the time of the publication of the new methodology, about 2% of all US school districts rated under the new methodology were upgraded with the remaining rating changes to be assigned over the next few months.

Implications for Utah School Districts

The majority (if not all) of the bonds publicly offered by Utah school districts[1] are secured under the Utah School District Bond Guaranty Program and are rated based on the State of Utah's guaranty (the *"State's Guaranty"*); however, the bonds have an underlying rating that reflects the rating of the individual school district (the underlying rating was likely disclosed in the offering document associated with a series of bonds).

For publicly offered bonds, the issuer would have been required to enter into a continuing disclosure undertaking or agreement pursuant to which the issuer agreed to, among other things, disclose the occurrence of certain listed events, including rating changes.[2] In the case that a school district's rating is changed under the new methodology the best practice would be to disclose the district's underlying rating change; even though one could argue that an event disclosure is not required because the actual rating of the bond has not changed (since the bond is rated based on the State's Guaranty and not the district's underlying rating).[3]

If your school district receives notice from Moody's of a rating change for its bonds, you should quickly consult with your bond team to determine if your school district should report the rating change.

For More Information

If you would like further information concerning the matters discussed in this article, please contact any of the following attorneys or the Chapman attorney with whom you regularly work:

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1 While bonds are issued by the board of education for a Utah school district, to match Moody's terminology, we refer to the bonds being issued by a school district for this alert.

2 For a continuing disclosure undertaking or agreement entered into after December 1, 2010, the disclosure must be made not in excess of ten business days after the occurrence of the event.

3 We have encountered instances in which an underwriter or bidder for bonds issued after a rating change for a school district's underlying rating have wanted the school district to disclose the prior rating change on the Electronic Municipal Market Access (EMMA) system as well as describe the rating change in the subsequent offering document.

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