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Ratings

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Summary:

Scott County R-6 School District (Sikeston), Missouri; Appropriations; School State Program

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Credit Profile		
US$8.0 mil GO bnds (Missouri Direct Deposit Prog) ser 2017 dtd 06/14/2017 due 03/01/2037		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Sikeston R-6 School District APPROP		
Long Term Rating	A/Stable	Affirmed
Sikeston R-6 Sch Dist sch prgm (AGM)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings assigned its 'AA+' program rating and 'A+' underlying rating for credit program and stable outlook to Scott County R-6 School District (Sikeston), Mo.'s series 2017 general obligation (GO) bonds and affirmed its 'AA+' program rating, with a stable outlook, on the district's existing GO debt.

S&P Global Ratings also affirmed its 'A' rating, with a stable outlook, on the district's lease-participation certificates.

The program rating reflects our opinion of the district's participation in the Missouri Direct Deposit of State Aid program, in which the state makes direct deposits of portions of monthly state aid payments to a bond trustee.

The SPUR on the lease-participation certificates reflects our view of the lease-rental payments subject to annual appropriation. We rate the certificates one notch down from the GO rating.

The underlying rating reflects our opinion of the district's:

- Very strong finances in terms of cash reserves,
- Good financial management practices under our Financial Management Assessment (FMA) methodology, and
- Low debt ratios despite the issuance of additional debt.

We believe what we consider the district's somewhat limited local economy with adequate, but below-average, income and wealth somewhat offsets these strengths.

The series 2017 bonds are a GO of the district, payable from ad valorem taxes the district could levy, without limitation as to rate or amount, on all taxable property within its territorial limits.

Following an $11 million bond authorization in April 2017, officials intend to use series 2017 bond proceeds to construct; improve; furnish; and equip school sites, buildings, and related infrastructure; this includes constructing,

furnishing, and equipping a new elementary school that will include a multipurpose building and safe room and dedicated spaces for the arts, music, and other special classes.

Economy

Scott County R-6 School District (Sikeston) serves an estimated population of 20,778. Median household and per capita effective buying incomes in the district are, in our view, adequate at 77% and 85%, respectively, of national levels. Estimated market value totaled $1 billion in fiscal 2016, which we consider adequate at $49,131 per capita. Assessed value (AV) grew by a total of 3.6% overall since fiscal 2015 to $246.9 million in fiscal 2017; in fiscal 2017, however, AV decreased by 1.4%. Roughly 4.8% of AV comes from the 10 leading taxpayers, representing a very diverse tax base, in our opinion.

The district is in southeastern Missouri, where it covers approximately 48 square miles in Scott County and about 16 square miles of New Madrid County. Most of the largely rural district's economic activity centers on Sikeston. In addition to local manufacturing and service-related employment, residents benefit from the district's location approximately 30 miles south of Cape Girardeau. Interstate 55 provides residents with easy access to a larger and more-diverse employment base.

The district's primarily residential and commercial property tax base has continued to grow modestly in recent years. Recently condemned properties in Sikeston have made way for new housing and small businesses. In addition, new hotels and restaurants have recently been announced or completed. Local tax base growth should continue to grow due to these developments.

Enrollment has been stagnant or slightly declining each year recently. The most recent student enrollment totals 3,388. With the announcement of the district's new school buildings and extensive renovations, there has been an uptick in housing demand. In addition, there will likely be an uptick in enrollment during the coming years.

Finances

The district's available cash reserve of $10.9 million, which consists of combined general and special revenue funds, was, in our view, strong on a cash basis of accounting at 35% of the combined funds' expenditures at fiscal year-end June 30, 2016. The district reported a surplus operating result of 0.3% of expenditures in fiscal 2016.

The district maintains strong finances, in our opinion. Management has remained prudent during the recent period of uncertainty surrounding state-aid-revenue-funding cuts. Outside of one-time costs for capital or debt repayment, financial performance has been consistent and well planned.

For fiscal 2017, officials are projecting a deficit of up to $1 million across all funds; there, however, is no major fluctuation in the general fund. Over the course of the next two fiscal years, the facilities plan will use up to $3 million of general fund balance through annual transfers into the capital fund from the general fund. Despite this planned use of reserves, officials indicate they expect to comply with the informal reserve target of maintaining three months' to four months' operations in reserve. Consequently, we expect the district will likely maintain strong reserves and stable finances over the next few fiscal years.

Mostly a mix of local property taxes and state aid support funding for Missouri school districts. Average daily attendance sets basic state aid funding; a local effort in the form of a look-back tax levy reduces this. The district can

increase the annual tax levy by the lesser of inflation or 5%--not accounting for new construction, which is separately realized fully in the levy--as long as the resulting tax rate remains below the maximum voter-approved amount. For fiscal 2017, the debt service levy is 21 cents per $100 of AV. The operating levy is $3.6513 per $100 of AV. The general fund depends primarily on state aid (42%) followed by local sources (41%).

Management

We consider the district's management practices good under our FMA methodology, indicating our view that financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

We have revised our assessment of the district's financial management policies and practices to good from standard because management performs formal historical trend analysis, coupled with the use of outside sources as independent forecasting sources when developing budget assumptions for annual revenue and expenditures. Other highlights include management's:

- Formal monthly reporting to the school board on budget-to-actual performance and investment holdings and earnings;
- Annually updated long-term financial planning for the current budget year, plus an additional four years;
- Rolling capital planning that details expected costs over the next five fiscal years--Funding sources, however, are not specifically outlined for all years;
- Formal investment policy that states its adherence to state investment guidelines; and
- Informal target of keeping, at least, three months' expenditures in available reserves for cash flow.

Debt

As a percent of market value, we consider overall net debt low at 0.4%, or very low on a per capita basis at $177. Including the new series 2017 bonds, amortization is slower than average, with 45% of the district's direct debt scheduled to be retired within 10 years. Despite rapid amortization, debt-service-carrying charges were only 7.8% of total-governmental-fund expenditures, excluding capital outlay, in fiscal 2016, which we consider low.

To complete the issuance of its recently authorized $11 million in bonds, the district plans to issue $3 million in 2020. Beyond that, we understand the district could use additional debt within four years to five years for further facilities replacements or upgrades. Due to the district's limited debt prior to the $11 million authorization and lack of debt from overlapping entities, debt metrics remain, in our opinion, favorable; we expect them to remain so during the outlook period.

Pension and other-postemployment-benefit liabilities

In fiscal 2016, the district paid its full required contribution of $2.6 million, or 7.3% of total governmental expenditures, to its pension obligations.

The district contributes to the Missouri Public School Retirement System, which is 84.8% funded, and the Missouri Public Education Employees' Retirement System, which is 86.4% funded; both of these plans are cost-sharing, multiemployer, defined-benefit pension plans.

Outlook

The stable outlook on the program rating reflects S&P Global Ratings' view of the strength of the Missouri Direct Deposit of State Aid Intercept structure. The stable outlook on the underlying rating reflects our belief that the district will likely maintain, what we consider, good financial reserves despite plans to spend some reserves for capital plans and that debt ratios will likely remain low due to additional debt plans. Due to this, we do not expect to change the rating over the outlook's two-year period.

Upside scenario

Assuming all other rating factors remain stable or improve, we could raise the rating if the local economy were to experience increased diversification and growth, leading to an improvement of wealth and income to levels we consider commensurate with the district's higher-rated peers.

Downside scenario

We could lower the rating if finances were to deteriorate significantly, leading to reserves falling below, what we consider, strong levels on a cash basis, due to either an ongoing structural imbalance or planned spending down of general fund balance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.