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Ratings

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Summary:

Meramec Valley R-III School District, Missouri; School State Program

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Credit Profile		
US$8.0 mil GO imp bnds ser 2017A due 03/01/2037		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
US$5.47 mil GO rfdg bnds ser 2017B due 03/01/2021		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Meramec Vy R-III Sch Dist GO (Missouri Direct Dep Prog)		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA+' program rating and 'AA-' underlying rating to Meramec Valley R-III School District, Mo.'s series 2017A general obligation (GO) improvement bonds and series 2017B GO refunding bonds. At the same time, we affirmed our 'AA+' long-term rating and 'AA-' underlying rating on the district's outstanding, program qualified bonds. The outlook is stable.

The bonds are general obligations of the district and are secured by revenue from the district's unlimited ad valorem tax throughout the life of the bonds. Proceeds from the series 2017A bonds will be used to renovate, expand, improve, acquire, construct, furnish, and equip school buildings as well as an early childhood center, upgrade technology infrastructure, and make security and energy improvements. The series 2017B bond proceeds will be used to refund the district's series 2008A and 2011 bonds for interest cost savings.

The 'AA+' long-term rating reflects our assessment of the district's eligibility for, and participation in, the Missouri Direct Deposit of State Aid program, under which the state makes direct deposits of portions of monthly state aid payments to a bond trustee. The program enhances local school district GO bonds, and provides for a first-dollar claim on monthly state aid, which the district will directly deposit to a master bond trustee.

The 'AA-' ICR reflects our view of the district's:

- Access to and participation in the greater St. Louis metropolitan area's diverse economic and employment base;
- Strong wealth and adequate-to-good income indicators;
- Strong financial reserves, albeit on a cash basis of accounting; and
- Low overall debt burden, coupled with rapid amortization of debt.

Partly offsetting the above strengths, in our view, are the district's planned drawdowns of reserves to fund one-time capital expenditures.

Economy

Meramec Valley R-III School District serves an estimated population of 22,361. In our opinion, median household effective buying income (EBI) is good at 97% of the national level, but per capita EBI is adequate at 89%. The district's total $1.4 billion estimated market value in 2017 is strong, in our view, at $62,944 per capita. Assessed value (AV) has grown by a total of 2.5% since 2015 to $312.6 million. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 6.3% of AV.

The school district covers 127 square miles largely within southeastern Missouri's Franklin County but also in smaller portions of St. Louis and Jefferson counties, approximately 20 miles southwest of St. Louis. In addition to local employment opportunities, the district's proximity to nearby Interstate 44 provides residents with easy access to the large and diverse employment base of the greater St. Louis metropolitan area. The largest employers in Franklin County include Washington School District (620 employees), GDX Automotive (600), the district itself (600), Parker-Hannifin Sporlan (600), and Schatz Underground Cable (500). In 2016, the unemployment rate was below both the state (4.5%) and national (4.9%) averages at 4.4%. Given modest residential development, we anticipate that AV will increase slightly within the next few years.

Enrollment totaled 3,119 students in 2017, having decreased slightly overall since 2013. Management projects that enrollment should remain fairly stable, but we believe that may be an optimistic projection given the historical trend.

Finances

Funding for Missouri school districts is mostly a mix of local property taxes and state aid. Basic state aid funding is set by average daily attendance, and is then reduced by a local effort in the form of a lookback tax levy. The district can increase the annual tax levy by the lesser of inflation or 5% (not accounting for new construction, which is separately fully realized in the levy), as long as the resulting tax rate remains below the maximum voter-approved amount.

The district's available cash reserve of $11.7 million (which consists of the combined general and special revenue funds) is strong on a cash basis of accounting, in our view, at 35% of the combined funds' expenditures at fiscal year-end (June 30) 2016. The district reported a deficit operating result of 2.5% of expenditures in 2016.

The district has posted operating deficits in each of the past three fiscal years as a result of a number of one-time capital projects. The fiscal 2017 budget features a roughly $425,000 deficit in the combined general and special revenue funds, which we estimate would reduce available reserves to $11.3 million, or a strong 35% of budgeted expenditures. As the state has withheld roughly $250,000 in transportation funding from the district, officials further project a total governmental funds deficit of nearly $760,000 for fiscal 2017. We note, however, that even if the entire projected total governmental deficit were drawn from available reserves, we would still consider the district's resulting balance strong at 34% of budgeted expenditures. Although management tentatively projects another operating deficit for fiscal 2018, it also reports that the current bond campaign will alleviate the pressure that various capital needs are placing on the budget. As such, management projects that the district could return to balanced operations within the next two to three years. Consequently, given both the strength of the district's reserves as well as management's projections, we anticipate that the district will maintain strong reserves for the foreseeable future.

Management

We consider the district's management practices good under our Financial Management Assessment (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.

Highlights of the district's financial management policies and practices include the use of at least five years of historical data as well as consultations with a number of outside sources to develop budgetary forecasts, monthly reporting to the board on budget-to-actual performance and investments, maintenance of formal investment and debt management policies, and adherence to a formal reserve policy to maintain at least three months of operating expenditures on hand. The district does not have a formal long-term financial plan, and while it does maintain a capital improvement plan, the plan projects only three years beyond the current budget rather than five.

Debt

At 2.5% of market value and $1,326 per capita, overall net debt is low, in our view. With 62% of the district's direct debt scheduled to be retired within 10 years, amortization is fairly rapid. The debt service carrying charge was 8.7% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

The district plans to issue an additional $3.75 million in voter-authorized bonds within the next year, but we do not estimate that its debt burden will increase beyond levels that we would consider moderate. We have verified that the district is not party to any privately placed or direct purchase agreements that would pose a risk to its liquidity.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $2.8 million, or 7.4% of total governmental expenditures, toward its pension obligations in fiscal 2016.

The district contributes to the Public School Retirement System of Missouri (84.8% funded) and the Public Education Employee Retirement System of Missouri (86.4% funded), both cost-sharing, multi-employer defined benefit pension plans. The district's proportionate share of the two plans' liabilities totals approximately $22.9 million. In accordance with state statutes, the district pays no portion of retiree health care premiums but allows its employees to stay on its health insurance plan after retirement and continue to pay active premium rates.

Outlook

The stable outlook on the 'AA+' program rating reflects our opinion of the strength of the Missouri Direct Deposit of State Aid program.

The stable outlook on the underlying rating reflects our anticipation that officials will closely monitor the operating budget to maintain stable operations and at least strong general fund cash reserves. The district's access to the St. Louis metropolitan area provides further stability to the rating. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the local economy were strengthen substantially, as evidenced by improved income and market value indicators, and if the district were to return to consistent balanced or surplus operations, we could consider raising the rating.

Downside scenario

If the district's financial performance were to deteriorate to such a degree that its reserves fell to a level that we no longer considered commensurate with that of similarly rated peers, we could consider lowering the rating.