

# RatingsDirect®

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**Summary:**

## Park Hill School District of Platte County, Missouri; School State Program

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## Summary:

# Park Hill School District of Platte County, Missouri; School State Program

### Credit Profile

US\$23.285 mil GO bnds (missouri dir dep prog) ser 2018 dtd 10/16/2018 due 09/01/2038

<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	AA/Stable	New
Platte Cnty Sch Dist (Park Hill) STSCHPR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Platte Cnty Sch Dist (Park Hill) STSCHPR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term program rating and its 'AA' underlying rating to Park Hill School District of Platte County, Mo. We also affirmed our 'AA+' rating on the district's underlying GO bonds. The outlook is stable.

The 'AA+' long-term program rating reflects our view of the school district's eligibility for, and participation in, the Missouri Direct Deposit of State Aid program.

The rating reflects our view of the district's

- Strong incomes as a percentage of the U.S. total median incomes,
- Extremely strong market value per capita, and
- Strong reserves on a modified cash basis of accounting.

These factors are partially offset by

- A slow debt amortization schedule where the district is scheduled to repay 37% of outstanding debt in the next 10 years, and
- High overall net debt per capita and moderately high overall net debt as a percentage of market value.

The bonds are secured by an unlimited-ad valorem tax, levied on all taxable property with the district's limits. Officials at the district intend to use proceeds from the bonds to expand the district's facilities to accommodate increasing enrollment.

## Economy

Park Hill School District serves an estimated population of 68,651. In our opinion, median household effective buying

income (EBI) is strong at 126% of the national level and per capita EBI is good at 129%. Estimated market value totaled \$7.5 billion in 2019, which we consider extremely strong at \$109,308 per capita. Net assessed value grew by a total of 10.6% since 2017 to \$1.7 billion in 2019. Roughly 9.7% of net assessed value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The school district is located in southern Platte County in the Northland region of the Kansas City Metropolitan Area, and sits approximately 10 miles northwest of Kansas City. The district abuts the Kansas City International Airport. Top employers in the district include the school district with 1,668 employees, followed by the Argosy Casino Hotel & Spa (771), Park University (632), and Adient, and automobile supplier (620). The top taxpayers comprise real estate and development companies.

The district has experienced significant growth in the past four years, with assessed values increasing by 14.7% since 2016. Values increased by 6.9% in 2018, and are expected to increase 3.7% in 2019. Officials describe the growth in the district as balanced between commercial and residential. Commercial entities to recently arrive in the district include a new CVS warehouse, and a new rental car facility that serves neighboring Kansas City International Airport. Officials also report that retail continues to expand. Residential properties are steadily increasing each year, but the district states that nearly all available land is built out and that it expects new residential to slow in the future.

Given the district's location near Kansas City and its strong history of assessed value growth in both commercial and residential, our view is that the economy should continue to grow in the near term.

## **Finances**

A mix of local property taxes and state aid primarily drives funding for Missouri school districts. Basic state-aid funding is set by average daily attendance, and is then reduced by a local effort in the form of a look-back 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 \$31.9 million is strong on a cash basis of accounting in our view, at 23.2% of general fund expenditures at fiscal year-end (June 30) 2017. The district reported a surplus operating result of 1% of expenditures in 2017.

Financial performance in the district is stable and strong. Over the past five fiscal years, the district has reported general fund surpluses, with one exception in 2016. Officials at the district manage finances to an informal 18%-22% target of general fund and special revenue fund expenditures, and made additional capital investments in technology in fiscal 2016 to keep the fund balance close to the reserve target.

In fiscal 2017, the district attributed its \$1.35 million surplus to an increase in enrollment, and therefore state aid, combined with conservative expenditures assumptions. In fiscal 2018, the district expects to reduce reserves slightly by 200,000, in order to manage to its informal general fund balance target, and has transferred more than \$3 million to the capital projects fund in preparation for this bond issue and associated capital improvements. The transfers to capital projects are used to fund needs related to growth in the district. However, given that the district is nearly built out, officials do not expect growth to continue in the long-run and believe capital needs will lessen in the future. For

example, the district currently has two high schools and a third facility that could be used for a high school. In fiscal 2019, the district posted a budget that shows approximately \$4 million in excess revenues in the general and special revenue fund, with an approximately \$2 million increase in general fund reserves. In the future, the district is expecting to spend down fund balances for capital projects, but anticipates keeping reserves at the current reserve target.

We view the district's reserves as stable. The district comprehensive financial projections show a stable fund balance in the general fund, and with a growing economy and increasing enrollment, we believe that the district will be able to maintain fund balances in line with informal reserve policies. In addition, given that the district's capital needs may decrease as the district becomes fully built out, we believe that the district will have ample budgetary flexibility in the event unforeseen one-time expenditures occur.

### **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.

The district looks at three and five year historical trends separately, and uses both in formulating its budget. Officials stated that they consult with several outside sources such as state budget experts, and professional associations during budget formulation. Every month, the district provides a treasurers report to the board which details budget to actual figures. Although the budget is usually amended at the end of the year, officials stated that they have conversations with the board frequently about the budget and can amend if necessary.

Officials at the district shared a comprehensive long-term financial and capital plan. The long term financial plan is included with the budget and uses a four level pyramid system, projecting revenues, expenditures and fund balances for all funds, all operating funds, individual funds, and administrative funds. Each section of the financial plan explains significant changes in assumptions from the current year. In addition, there is a capital budget that details expenditures by line item. These projections include the budget year and three following years. These plans are made available to the public online. Separately, the district produces a five-year capital plan, identifying items by function and object.

The district has a formal investment policy that follows Missouri state guidelines, and includes investments in its monthly treasurer's report shared with the board. Officials stated that they have an informal reserves policy of 18%-22% in the general fund, plus 75% of capital expenditures in the capital projects reserve. These targets were identified in conjunction with the community.

It is our understanding that the district does not have a reserve and liquidity policy at this time.

### **Debt**

Overall net debt is 6.5% of market value, which we believe to be moderately high, and \$7,095 per capita, which we believe to be high. With 37% of the district's direct debt scheduled to be retired within 10 years, amortization is average. Debt service carrying charges were 8% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider elevated. We adjusted overall net debt by including appropriation debt in our overlapping debt calculations and the estimated percentage applicable to the district.

The district has no immediate plans to issue additional debt, but officials are closely monitoring enrollment to study

future capital needs. Given the limited amount of new residential area available in the district, officials are tentatively planning for a potential issuance in 2023 or 2024.

We note that the current series features a large payment in 2038. The schedule is structured so that debt service is relatively leveled out to 2038. Currently the schedule shows a steadily increasing repayment schedule starting in 2020 out to 2038.

### **Pension and other postemployment benefit liabilities**

The district paid its full required contribution of \$3.1 million toward its pension obligations in fiscal 2017, or 4.2% of total governmental expenditures.

The district participates in the PSRS, a mandatory cost-sharing, multiple employer, retirement system for all full time and certain part-time employees. It is a defined-benefit plan that provides retirement, disability, and death/survivor benefits. In fiscal 2017, the funded ratio was 83.8%, a slightly decrease from 2016. In addition, the plan lowered its discount rate to 7.6% from 7.75%. We consider the pension mortality assumption risky, as the assumptions are static. However, given the funded ratio, we do not believe the district's pension contributions will apply any pressure to the district's finances in the near term.

## **Outlook**

The stable outlook on the 'AA+' long-term program rating reflects our view of the strength of the Missouri Direct Deposit State Aid Intercept structure.

The stable outlook reflects our view that the district's growing economy and history of positive financial results will enable the district to maintain strong reserves. The outlook also reflects our view of the district's good financial management practices, which should allow it to successfully manage any disruptions to the local economy, as well as student enrollment growth. Given the above, we do not expect to change the rating during our two-year outlook window.

### **Upside scenario**

If the district's economic metrics increase to levels commensurate with those of higher-rated peers, while the district continues to maintain its strong financial reserves, we may raise the rating.

### **Downside scenario**

If the district develops a structural imbalance and financial reserves are depleted, we may lower the rating.

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.



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