S&P Global
Ratings

RatingsDirect®

Summary:

Jefferson County School District R-V (Dunklin), Missouri; School State Program

Primary Credit Analyst:
Katelyn A Batesel, Centennial + 1 (303) 721 4683; katelyn.batesel@spglobal.com

Secondary Contact:
Alex Louie, Centennial 303-721-4559; alex.louie@spglobal.com

Table Of Contents

Summary:

Jefferson County School District R-V (Dunklin), Missouri; School State Program

Credit Profile		
US$8.06 mil GO rfdg and imp bnds ser 2018 due 03/01/2038		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Jefferson Cnty Sch Dist R-V (Dunklin) GO qual sch const bnds (tax credit bnds) (Missouri Direct Deposit Program) ser 2009C dtd 10/08/2009 due 03/01/20		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Jefferson Cnty Sch Dist R-V (Dunklin) GO St Credit Enhancement		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' underlying rating and 'AA+' long-term rating to Jefferson County School District R-V (Dunklin), Mo.'s series 2018 general obligation (GO) refunding and improvement bonds. At the same time, we affirmed our 'A+' underlying rating and 'AA+' program rating on the district's outstanding GO debt. The outlook is stable.

Located 30 miles south of St. Louis, the district has a stable, modestly growing economy. Inflationary cost pressures would be the most likely cause of rating pressure, but we anticipate no material declines within the next few years. Given management's dedication to maintaining reserves at a level sufficient to meet its cash flow needs, we believe that it will proactively work to rightsize the district's budget and maintain stable operations and strong reserves for the foreseeable future.

The 'AA+' enhanced rating reflects our view of the school district's eligibility for, and participation in, the Missouri Direct Deposit of State Aid program. The bonds are GOs of the district and are secured by revenue from an unlimited ad valorem tax throughout the life of the bonds. Proceeds from the series 2018 bonds will be used to refund a portion of the district's outstanding debt for interest cost savings as well as to acquire, construct, renovate, furnish, and equip school sites.

The 'A+' underlying rating reflects our view of the district's:

- Participation in the larger St. Louis metropolitan statistical area economy and strong per capita market value,
- Maintenance of strong reserves (on a modified cash basis), and
- Strong market value per capita.

Partly offsetting the above strengths, in our view, are the district's below-average, albeit good-to-adequate, income indicators.

Economy

Jefferson County School District R-V (Dunklin) serves an estimated population of 10,205. In our opinion, median household effective buying income (EBI) is good at 93% of the national level, but per capita EBI is adequate at 81%. At $64,919 per capita, the 2018 estimated market value totaling $662.5 million is, in our opinion, strong. Assessed value (AV) grew by a total of 4.2% since 2016 to $158.2 million in 2018. The tax base is diverse, in our view, with the 10 largest taxpayers accounting for approximately 15.7% of AV.

The district is located in Jefferson County, about 30 miles south of St. Louis along Interstate 55, and covers approximately 50 square miles, including the cities of Herculaneum and Pevely and the unincorporated community of Horine. We understand that many residents commute to St. Louis for work, but the largest local employers include Mercy Hospital Jefferson (1,347 employees), Fox C-6 School District (1,218), Convergys Corp. (1,000), and Northwest School District R-I (804). In 2017, the unemployment rate was below both the state (3.8%) and national (4.4%) averages at 3.6%. Management projects that AV will continue to increase modestly, which we believe is reasonable given ongoing residential construction throughout the area.

Enrollment has increased slightly overall since 2014, reaching 1,511. Management projects that enrollment will remain fairly level, which we believe is reasonable given both the historical trend as well as the aforementioned residential growth.

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 $4.5 million (which consists of the combined general and special revenue funds) is strong on a cash basis of accounting, in our view, at 26% of the combined funds' expenditures at fiscal year-end (June 30) 2017. The district reported a deficit operating result of 2.9% of expenditures.

Fiscal 2018 operating estimates feature a roughly $303,000 operating deficit while the 2019 budget features a $132,000 operating deficit. Management reports that the 2017-2019 deficits represent an intentional drawdown meant to bring the district's reserves more in line with its target fund balance of 20% of expenditures, which we would still consider strong. Given management's objectives, as well as the use of increased expenditures to fund one-time rather than recurring expenses, we anticipate that the district will maintain strong cash reserves in line with management's 20% target.

Management

We consider the district's management practices standard under our financial management assessment methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

We revised our assessment of the district's financial management policies and practices to standard from good as its long-term capital improvement plan lacks a number of key details.

Highlights of the district's financial management policies and practices include the use of both historical data and consultations with a number of outside sources to develop budgetary forecasts, monthly reporting the board on both budget-to-actual performance and investment holdings, maintenance of a formal investment management policy, and adherence to a formally adopted reserve target to maintain at least 20% of expenditures on hand. Although the district has a formally adopted debt management policy, the policy is not materially more restrictive than state statutes.

Debt

Overall net debt is moderate, in our opinion, at 4.6% of market value and $2,961 per capita. With 48% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. The debt service carrying charge was 11.6% of total governmental fund expenditures excluding capital outlay, which we consider moderate, in fiscal 2017.

The district has no plans to issue additional debt within the next two years, so we do not anticipate that its debt profile will change materially in the near term. Additionally, we have verified that the district is not party to any direct purchase or privately placed obligations that we believe would pose a risk to its finances or liquidity.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $1.4 million, or 6.8% of total governmental expenditures, toward its pension obligations in fiscal 2017.

The district contributes to the Public School Retirement System of Missouri (83.8% funded) and the Public Education Employee Retirement System of Missouri (85.4%), both cost-sharing, multiple-employer defined benefit pension plans. The district's proportionate share of the two plans' liabilities totals $9.7 million. It has been making its full required contributions to its pension plans, and although some of the plans' assumptions may be more aggressive, we don't anticipate that required contributions will increase materially in the near term. We further note that the district provides postemployment health care benefits, which it funds on a pay-as-you-go basis.

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 expectation that the district will adhere to its target to maintain at least 20% of expenditures on hand, which we view as strong. Further stability is provided by the district's access to the greater St. Louis metropolitan statistical area economy. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the local economy were to materially develop, as evidenced by improved income and market value metrics, we could consider raising the rating.

Downside scenario

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

Ratings Detail (As Of October 18, 2018)		
Jefferson Cnty Sch Dist R-V (Dunklin) GO rfdg and imp bnds ser 2018 due 03/01/2038		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	A+/Stable	Rating Assigned

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.