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Ratings

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Summary:

The School District of Columbia, Missouri; General Obligation

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Credit Profile		
US$30.0 mil GO imp bnds ser 2019 due 03/01/2039		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to The School District of Columbia, Mo.'s series 2019 general obligation (GO) improvement bonds. The outlook is stable.

Revenue from an unlimited ad valorem tax levied on all taxable property in the district secures the bonds. Proceeds will be used to acquire, construct, improve, repair, remodel, renovate, furnish, and equip new and existing school facilities.

The School District of Columbia benefits from its participation in the broad and diverse Columbia metropolitan statistical area (MSA). With 64.9% of fiscal 2018 combined general and special revenue fund revenue stemming from local sources, the economy's stable growth has helped support the district's strong operations. Although officials anticipate drawing down reserves over the next few years to fund increased operating costs at the district's new middle school, we do not believe that the reserves will fall to levels below what we consider very strong.

The rating reflects our view of the district's:

- Participation in the broad and diverse Columbia MSA,
- Strong finances, and
- Good financial management policies and practices.

Partly offsetting the above strengths, in our view, are the economic base's market value and income metrics, which, while adequate to strong, do not compare favorably with those of higher-rated peers.

Economy

The School District of Columbia serves an estimated population of 147,408. In our opinion, median household effective buying income is adequate at 89% of the national level, but per capita effective buying income is good at 91%. Estimated market value in 2019 totaled $10.9 billion, which we consider strong at $74,109 per capita. Assessed value (AV) has grown by 6.7% since 2017 to $2.5 billion. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 4.6% of AV.

The district encompasses roughly 303 square miles and serves the City of Columbia and surrounding areas. Columbia

is home to the University of Missouri, the state's flagship university. We believe the university acts as a stabilizing institution for the city and that the large student population likely suppresses local income metrics. The area's largest employers include the university (8,706 employees), University Hospital and Clinics (4,600), Columbia Public Schools (2,517), and Veterans United Home Loans (1,742). Officials report that the area is experiencing growth in the medical, dairy, and retail industries, and thus project that AV will continue to increase at a rate of about 3% per year. Given both the historical trend as well as the area's development, we believe that management's projections are reasonable, and that the stable growth will continue.

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 $58.9 million (which consists of the combined general and special revenue funds) was very strong, in our view, at 28.3% of the combined funds' expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 3.5% of expenditures.

The district has maintained strong operations, posting operating surpluses in each of past three audited years. Fiscal 2019 projections feature a roughly $5.4 million operating surplus (2.4% of expenditures), although officials report that service and supply expenditures are coming in below budget, and that they consequently anticipate that the district could finish the year with as much as a $7 million operating surplus. Officials further report that the district intentionally built up its reserves in preparation for the opening of its new middle school. Although officials intend to fund only a small portion of the new schools' one-time capital costs with reserves, they project that increased operating costs will weaken the district's performance and possibly result in draws on reserves. Given management's robust long-term planning as well as its dedication to maintaining reserves above 18% to 20% of expenditures, we anticipate that the district's reserves will remain very strong for the next few years, despite projected drawdowns.

Management

We consider the district's management practices good under our financial management assessment 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 both historical data as well as consultations with a number of outside sources to develop financial forecasts, maintenance of detailed long-term financial and capital improvement plans, adherence to a formal investment management policy, monthly reporting to the board on investments, and adherence to formal directive to maintain a minimum of 18% to 20% of expenditures on hand. The district does not maintain a formal debt management policy that goes beyond state guidelines.

Debt

We consider overall net debt moderate at 3.1% of market value and $2,300 per capita. Amortization is below average, with 45% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 13.3% of total governmental fund expenditures excluding capital outlay, which we consider moderate, in fiscal 2018.

The district may seek to issue roughly $15 million in additional debt within the next few years, but we do not believe that issuance will increase the district's debt burden beyond a level that we would consider moderate. Additionally, we do not believe that the district is party to any privately placed or direct purchase agreements that would pose a risk to its liquidity.

Pension and other postemployment benefit liabilities

In fiscal 2018, the district paid its full required contribution of $18.3 million, or 6.8% of total governmental expenditures, toward its pension obligations.

The district contributes to the Public School Retirement System of Missouri (84.1% funded) and the Public Education Employee Retirement System of Missouri (86.1%), both cost-sharing, multiple-employer defined benefit pension plans. The district's proportionate share of the two plans' liabilities totaled $178.7 million as of the most recently available valuation. It has been making its full required contributions to its pension plans, and although some of the plans' assumptions may be 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. Given the rising cost of health care, we anticipate that the district's postemployment health care benefit costs will increase and perhaps eventually pose pressure on the district's finances.

Outlook

The stable outlook reflects our expectation that the district will maintain stable operations and strong reserves for the foreseeable future. Further stability is provided by the district's participation in the broad and diverse Columbia MSA. Consequently, we do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

If the local economy were to materially grow and develop such that the district's income and market value metrics improved to levels that we considered commensurate with those of higher-rated peers, and if the district maintains its reserves at current levels, we could consider raising the rating.

Downside scenario

If the district were to return to deficit operations and thereby reduce reserves to a level we no longer considered commensurate with those of similarly rated peers, we could consider lowering the rating.

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