S&P Global Ratings

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Summary:

Bayless Consolidated School District, Missouri; School State Program

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Table Of Contents

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Credit Profile		
US$6.5 mil GO bnds ser 2019 due 03/01/2039		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Bayless Cons Sch Dist GO State Enhancement Prog		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Bayless Cons Sch Dist SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' underlying rating and 'AA+' long-term rating to Bayless Consolidated School District (CSD), Mo.'s series 2019 general obligation (GO) bonds. At the same time, we affirmed our 'AA-' underlying rating and 'AA+' long-term rating on the district's GO debt outstanding. The outlook is stable.

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 general obligations of the district and are secured by revenue from an unlimited ad valorem tax throughout the bonds' life. The series 2019 bond proceeds will fund expansion of the junior high, doubling it in size, and various other smaller projects.

The 'AA-' underlying rating reflects our view of the district's general creditworthiness, including its:

- Participation in the diverse St. Louis metropolitan statistical area (MSA) economy, with income measures that are good to adequate;
- Stable financial operations, backed by strong available reserves, albeit on a cash basis of accounting; and
- Low debt burden.

Economy

Bayless CSD serves an estimated population of 12,866. The district serves residents over 2.4 square miles of southwestern St. Louis County, including portions of the village of Wilbur Park and the city of Bella Villa, plus unincorporated areas of the county. Residents have easy access to jobs across the St. Louis MSA. Median household and per capita effective buying incomes in the district are good at 92% and 85% of national levels, respectively. The district's $716.7 million estimated market value for fiscal 2019 equates to a strong $55,704 per capita, in our view. The 10 largest taxpayers make up about 5.2% of assessed value, which we consider very diverse.

Year-over-year assessed value (AV) growth has been uneven over the medium term, including a decline of 2.1% for fiscal 2016 and growth of 7.6% for fiscal 2018, a reassessment year. Overall, AV grew 6% during the past five years to $152 million for fiscal 2019. Management is planning for 0.5% growth in nonassessment years and 3.0% in reassessment years. However, we understand that initial assessor reports indicate stronger growth for the next reassessment. Growth is being driven primarily by turnover in housing to young families.

The district's enrollment has been historically stable at around 1,600 students. However, since fiscal 2016, enrollment has grown 7% to 1,715. Management expects the addition of about 40-50 kids annually over the next three-to-five years before leveling out.

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 $5.3 million (which consists of the combined general and special revenue funds) is strong on a cash basis of accounting, in our view, at 31% of the combined funds' expenditures at fiscal year-end (June 30) 2018. The district reported a modest surplus for fiscal 2019, which will maintain reserves at around 30%. Fiscal 2020 budget shows a deficit equal to 2% of the combined funds' expenditures. However, management is expecting a modest surplus as they usually don't expend the full appropriations. In addition, management's practice is to achieve annual surpluses due to protect against state education funding reductions. The district carefully manages staffing levels, optimizes the usage of classroom space, and only approves additional midyear appropriations if they will be offset by underspending in other areas.

Management

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

Budget-to-actual progress is reported to the board monthly, but investment performance is formally reported only once a year, and the district has an investment policy. There is no formalized long-term financial forecasting, but the school does maintain detailed long-term capital and maintenance plans for each of its buildings. Management also keeps informal reserve targets for contingency purposes of 30%-35% of expenditures. The district does not have a debt management policy, but it adheres to statutory limitations.

Debt

At 2.3% of market value and at $1,283 on a per capita basis, we consider overall net debt low. With 37% of the district's direct debt scheduled to be retired within 10 years, amortization is slower than average. Proceeds from the series 2019 bonds will primarily fund the expansion of the junior high, which was built for a capacity of 250 students and currently has an enrollment of 420. The district has about $2.9 million of bond authorization remaining, which it might issue during calendar 2021 for facilities renovations. We understand these bond issues will support the district's capital needs for the next five years.

Pension and other postemployment benefits liabilities

The district contributes to both the Public School Retirement System of Missouri (84.1% funded) and the Public Education Employee Retirement System of Missouri (86.1% funded). It paid its total annual required contribution toward its pension obligations in fiscal 2018, which was 7.4% of total governmental expenditures.

The district does not pay for any portion of retiree health care premiums, but allows retirees to stay on its health insurance plan at their own expense. A portion of the district's contributions to the health care plan for active employees therefore constitutes an implicit subsidy contribution on behalf of its retirees. Due to the modified cash basis of accounting, this implicit contribution is not included in the district's audits.

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 on the 'AA-' underlying rating reflects our expectation that the district will maintain strong cash reserves and a low overall debt burden. Budget performance has historically remained steady, and we expect this to continue. Therefore, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

A lower rating could occur in response to continued structurally imbalanced operations resulting in a deterioration of the district's cash reserves to levels that we no longer consider strong.

Upside scenario

We could raise the rating if Bayless CSD's economic metrics improve and if the district formalizes more financial management policies and procedures.