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Ratings

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Summary:

Clayton School District, Missouri; General Obligation

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Credit Profile		
US$31.21 mil GO rfdg bnds ser 2019 due 03/01/2029		
Long Term Rating	AAA/Stable	New
Clayton Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Clayton School District, Mo.'s series 2019 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the district's GO debt outstanding. The outlook is stable.

The bonds are secured by revenue from an unlimited ad valorem tax on all taxable property in the district. Proceeds of the bonds will be used to refund a portion of the district's debt outstanding for interest rate savings.

Credit overview

Clayton School District's participation in the broad and diverse economy of St. Louis--as a major independent city and inland port--provides for a stable economy with a growing revenue base. The tax base has grown by double digits in recent years, exceeding $1 billion in assessed valuation (AV) with additional residential construction underway. Management has leveraged growth with salary increases for teaching staff and increased capital outlay, and despite recent deficits, projects surpluses for the following two fiscal years alongside property tax growth and a voter-approved levy increase. The debt burden is manageable and, with rapid amortization, will likely remain low-to-moderate over the next several years.

- Stable local economy, further supported by very strong income indicators and low unemployment rates;
- Very strong finances, supported by increasing property valuations, an increase to the tax levy during fiscal 2020, and good financial management policies under our financial management assessment methodology; and
- Low-to-moderate overall net debt with rapid direct debt amortization and no plans to issue additional debt in the medium term.

Outlook

Downside scenario

We could lower the rating if reserves were to deteriorate significantly or if economic conditions were to weaken to a point where we would no longer consider the credit profile commensurate with the rating.

Credit Opinion

Expanding economy, led by residential construction and participation in the St. Louis metropolitan area

The district is located in the City of Clayton, the seat of St. Louis County, and includes a portion of the City of Richmond Heights. The district covers an area of approximately 3.3 miles. District residents have access to employment opportunities in the diverse St. Louis MSA economy. Leading district employers include health care consulting firm Centene Corp. (with 2,024 employees), SSM Health Care (2,000), the county government (1,609), and Enterprise Rent-A-Car (1,115).

AV has increased by 28% in fiscal years 2017 to 2020. Management partly attributes the AV increase to new construction and the 2017 and 2019 reassessment years. New commercial and residential development was recently completed, including four residential developments with 650 dwelling units completed in 2018. Officials budget for 3% growth during even fiscal years.

One of the largest taxpayers and employers, Centene, is expanding its campus. Officials expect the first phase of construction to be completed in 2020 and to include a 28-story building and parking garage with an AV of around $28 million. The second phase is planned for 2022 completion with a Civic Center and residential high rise housing. The entire project, with the exception of the residential high-rise housing, was granted a 40% tax abatement.

The district operates one high school, one middle school, three elementary schools, and one early childhood education center. Student enrollment was 2,652 for the 2018-2019 school year, having increased overall from 2014 to 2018. We expect modest enrollment increases through the 2022 school year based on the construction of multiple residential developments in the district.

Strong financial position despite recent deficits from increased capital and salary costs

The district reports its finances on a modified accrual basis of accounting with a June 30 fiscal year end. Its operating and special revenue fund combined revenue mostly consists of property taxes (95%), followed by state sources (4%). In April 2019, voters approved to increase the operating levy by 56 cents per $100 of AV and an eight-cent waiver of Proposition C (local) sales tax revenue. The net effect of both measures will provide the district with an additional 64 cents of operating revenue, or approximately $7.3 million, starting in fiscal 2020.

The financial position at fiscal year-end 2018 was very strong, bolstered by growing revenue sources from property tax revenue, despite a small deficit in fiscal 2018. Officials attribute the recent deficit to inflationary increases in operating expenses, such as salary increases, benefits, and supply costs. For fiscal 2019, officials estimate a larger deficit at around $8.2 million, or 16% of projected expenditures. The deficit was largely due to increased operating expenditures and capital outlay. A 1.25% increase for certified staff had been implemented. In addition, the operating budget supported maintenance of the facilities and grounds, recommended technology improvements, textbook, musical instrument, and athletic uniform replacement, and curriculum implementation plans. As a result, reserves had fallen below the district's informal target of 18% of operating expenditures.

For fiscal 2020, officials anticipate returning to compliance with their reserve policy as a result of a budgeted $2.6

million surplus, or 5% of budgeted expenditures. Because AV rose significantly in fiscal 2020, the board of education voted to voluntarily roll back the levy to not collect more revenue than originally requested on the ballot. With the district's deep property tax base and levy increase planned for 2021, we believe that the district's return to surplus operations is likely.

Good FMA, supported by sound policies and practices

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 include management's:

- Budget assumptions that incorporate 10 years of historical data and outside sources,
- Monthly budget monitoring and reporting to the school board,
- Annual preparation of multiyear financial projections,
- Rolling five-year facilities plan that focuses on comprehensive capital needs, and
- Formal investment policy with monthly investment reports to the board.

However, we understand the district lacks a debt management policy and although officials have an informal reserve target of maintaining 18% of operating expenditures in reserves, year-end 2019 estimates show the district is out of compliance with this target. Officials expect to return to compliance with their reserve target by fiscal year-end 2020.

Debt profile is manageable given the sizable tax base and rapid amortization

Overall net debt is moderate on a per capita basis at $4,789. With 100% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid.

The district has no plans to issue additional debt in the medium term. Furthermore, the district has approximately $5 million in privately placed capital leases outstanding. However, we view the risks to the district's liquidity as limited, as provisions in the agreement allow for the acceleration of only one year of debt service.

Pension and other postemployment benefit liabilities are adequately funded and sustainable

The district contributes to the Missouri Public School Retirement System (PSRS) and the Missouri Public Education Employees' Retirement System (PEERS), both of which are cost-sharing, multiple-employer, defined benefit pension plans. Missouri's PSRS and PEERS plans are 86% and 84% funded, respectively. The district made its required annual contribution to these plans. It also provides OPEB to certain eligible employees on a pay-as-you-go basis. At June 30, 2018, the district had an OPEB unfunded actuarially accrued liability of $5.4 million. Although fixed pension and OPEB costs represent low budgetary pressure, OPEB costs will likely accelerate as liabilities become realized as a result of the district's pay-as-you-go funding.

Rating above the sovereign

Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the district's GO bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the nation in a stress scenario.

Under our criteria, U.S. local governments are considered moderately sensitive to country risk. Local-government-derived revenue is the primary source of security on the bonds. The institutional framework in the U.S. is predictable with significant state autonomy and flexibility, demonstrated by high debt service coverage and serial bond amortization, as well as independent treasury management. In addition, the federal government has no history of intervening in a school district's revenue generation or treasury operations. For these reasons, we believe the district would maintain the ability to collect property tax revenue and state aid despite a sovereign default. Moreover, what we consider the district's very strong general fund balance as a percentage of expenditures demonstrates its financial flexibility.

Clayton School District, Mo., Financial And Operating Statistics

	Characterization	Most recent	Historical information		
			2018	2017	2016
Economic indicators					
Population			18,744	18,787	18,743
Median household EBI as % of U.S.	Very strong		158	155	148
Per capita EBI as % of U.S.	Very strong		174	167	160
MV per capita ($)	Extremely strong	299,787	259,695	230,721	232,901
Top 10 taxpayers as % of AV	Diverse	16.2	14.7	17.0	17.0
Financial indicators					
Total adjusted available fund balance ($000)			15,318	16,745	20,306
Total adjusted available fund balance as % of operating expenditures	Very strong		30.4	34.2	42.9
Governmental funds cash as % of governmental funds expenditures			45.6	40.9	47.0
General fund operating result as % of general fund operating expenditures			(2.99)	(6.13)	(1.97)
FMA	Good				
Enrollment			2,681	2,637	2,590
Debt and long-term liabilities					
Overall net debt as % of MV	Low	1.6	2.3	2.3	2.4
DS as % of governmental funds expenditures	Moderate		13.4	13.3	13.3
Pension ADC ($000)			4,415	4,327	4,162
OPEB contribution ($000)				345	277
ADC plus OPEBs as % of governmental funds expenditures		7.4	8.0	7.9	

ADC--Actuarially determined contribution. AV--Assessed value. DS--Debt service. EBI--Effective buying income. MV--Market value. FMA--Financial Management Assessment. OPEB--Other postemployment benefit.