

RatingsDirect®

Summary:

Osage County R-II School District, Missouri; School State Program

Primary Credit Analyst:

Augustin Kazakevicius, Centennial + 1 (303) 721 4782; augustin.kazakevicius@spglobal.com

Secondary Contact:

Katelyn A Kerley, Centennial + 1 (303) 721 4683; katelyn.Kerley@spglobal.com

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Summary:

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Credit Profile

US\$7.155 mil GO rfdg bnnds (Missouri direct dep prog) ser 2019 due 03/01/2034

Long Term Rating AA+/Stable New

Underlying Rating for Credit Program A+/Stable New

Osage Cnty R-II Sch Dist SCHSTPR

Long Term Rating AA+/Stable Affirmed

Underlying Rating for Credit Program A+/Stable Affirmed

Rationale

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

The bonds are secured by unlimited ad valorem property taxes. The bonds are issued for the purpose of refunding the district's GO refunding and improvement bonds, series 2014.

The 'AA+' long-term rating on the district's GO bonds reflects our view of the district's participation in the Missouri Direct Deposit of State Aid program administered by the Missouri Health and Educational Facilities Authority.

Credit overview

The district's budgetary performance has historically been strong, demonstrated by a series of operating surpluses that have contributed to the accumulation of strong reserves. The district's reserve position, combined with an adequate, but stable, local economy, as well as the district's proximity to Jefferson City, Mo. for additional employment opportunities, leads us to expect the district's credit profile will remain stable.

Credit factors include:

- Strong available reserves, well above the district's fund balance target of 20%, allowing for flexibility in spending;
- An adequate, but stable local economy, supported in part by its proximity to Jefferson City, as well as the presence of the State Technical College of Missouri; and
- A moderate debt profile, with faster-than-average amortization.

Outlook

The outlook on the program rating is stable and moves in tandem with the state's rating.

Upside scenario

We could raise the underlying rating if the economy were to grow significantly to levels comparable with those of higher-rated peers.

Downside scenario

If the district's budgetary performance were to worsen to such a point that available fund balances would fall to levels comparable with those of lower-rated peers, without a plan to address the decrease, we could lower our underlying rating.

Credit Opinion

Strong available reserves, due to strong historical budgetary performance

The district has a strong track record of posting operating surpluses over the last decade, which has contributed to the growth of its available reserves to 47.7% of operating expenditures. Operating results have historically been better than budgeted, demonstrating the district's conservative budgeting.

In fiscal 2018, the district posted another operating surplus of approximately \$275,000 (4.9% of expenditures). During that year, the district faced some one-time expenditures related to construction and renovation projects.

In fiscal 2019, the district posted a deficit of approximately \$120,000. This resulted from some planned expenditures for equipment and other costs. The district was able to spend down some of its reserves to cover those expenses without straining its fund balance.

For 2020, the district is planning for a break-even result. Management has indicated that it does not foresee any major budgetary pressures, but is preparing for some additional capital expenditures. Considering the district's strong historical record, as well as management's conservative budgeting, we consider this result achievable and do not expect any significant changes in the finances that would alter our view of the district's credit profile.

Adequate but stable economy, with access to Jefferson City

The district is located in central Missouri and encompasses Osage County and extends slightly into Gasconade County. Local economic indicators are adequate but have been relatively stable over the past few years, supported by a steadily growing market value. One of the major employers in the district is the State Technical College of Missouri, which has seen exponential growth from last year and is attracting many new students to the area. This may not be reflected accurately in the economic metrics.

Management is expecting some additional industrial and residential development in the area. A new pipeline is currently being constructed in the area and is providing additional work opportunities for residents. In addition, recent measurements have indicated that there is a shortage of housing units, and officials expect residential development to grow further.

The district is also located near Jefferson City, the state capital of Missouri. This proximity provides district residents with additional employment opportunities, particularly within governmental institutions. This, combined with the district's local economy, leads us to believe economic metrics will remain stable.

Enrollment has declined somewhat in the past three years but has been stable overall over the past decade, with some fluctuations. The district does not expect enrollment to vary significantly in the years to come.

Standard management with policies in some, but not all, key areas.

The district looks at historical trends and uses available outside resources when preparing budgets. Officials provide the board with monthly budget reports and maintain flexibility to amend the budget if necessary. The district also maintains formal policies for investments and debt and provides the board with monthly investment reports. The district has no long-term financial plan, but maintains listed goals for facilities maintenance. Although the district lacks a formal fund balance policy, management aims to maintain a minimum 20% of expenditures for the combined general and teachers' funds.

Moderate debt profile with faster-than-average amortization

We consider the district's debt moderate at 5.8% of market value. The debt service carrying charge is moderate at 9.91% of expenditures. Sixty-one percent of the debt is expected to be paid off in 10 years, which we consider faster-than-average amortization. The district does not expect to issue any further debt in the next two years.

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% funded), both cost-sharing, multiple-employer defined benefit pension plans. The district made its full required contribution for both plans over the past three years. In accordance with state statutes, the district pays no portion of retiree health care premiums but allows its employees to stay on its health insurance plan after retirement and continue to pay active premium rates. Due to certain funding assumptions for the plans, we anticipate the pension costs could increase and start pressuring the district's operations.

Osage County R-II School District, Missouri--Financial And Operating Statistics					
	Characterization	Most recent	Historical information		
			2018	2017	2016
Economic indicators					
Population			5,370	5,290	5,319
Median household EBI % of U.S.	Good		91	97	97
Per capita EBI % of U.S.	Adequate		77	82	83
MV per capita (\$)	Adequate	53,856	46,021	45,613	44,310
Top 10 taxpayers as % of assessed value			12.3		
Financial indicators					
Total adjusted available fund balance (\$000)			2,686	2,411	2,313
Total adjusted available fund balance as % of operating expenditures	Strong		47.7	43.5	42.3
Governmental funds cash as % of governmental fund expenditures			56.4	32.8	27.5
General fund operating result as % of general fund operating expenditures			4.87	1.79	0.57

Osage County R-II School District, Missouri--Financial And Operating Statistics (cont.)

	Characterization	Most recent	Historical information		
			2018	2017	2016
Financial Management Assessment	Standard				
Enrollment		610	627	636	611
Debt and long-term liabilities					
Overall net debt as % of MV	Moderately high	5.8	6.9	3.3	3.5
Debt service as % of governmental funds expenditures	Moderate		9.9	12.7	12.7
Pension ADC (\$000)			436	429	416
OPEB contribution (\$000)					
ADC plus OPEB as % of governmental fund expenditures			6.7	5.8	3.2

EBI--Effective buying income. MV--Market value. ADC--Actuarially determined contribution. OPEB--Other postemployment benefits.

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