S&P Global
Ratings

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Summary:

School District of Columbia, Missouri; General Obligation; School State Program

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Summary:

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Credit Profile		
US$54.36 mil taxable GO rfdg bnds ser 2020 due 03/01/2034		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
Columbia Sch Dist GO imp bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'AA' underlying rating to The School District of Columbia, Mo.'s series 2020 taxable general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the district's GO outstanding. The outlook is stable.

Security and the use of proceeds

The series 2020 bonds and GO debt outstanding are secured by revenue from an unlimited ad valorem tax on all taxable property in the district. Proceeds of the series 2020 bonds will be used to refund a portion of the district's debt outstanding for interest rate savings.

The 'AA+' long-term rating reflects our assessment of the district's eligibility for and participation in the Missouri Direct Deposit program. The state credit enhancement rating is one notch below the Missouri GO rating, reflecting our:

- View of state aid appropriation risk, partly mitigated by strong state support for the program and consistent, well-established state aid funding;
- Expectation that maximum annual debt service (MADS) coverage on all parity debt by state aid payments, currently at 9.25x, will remain strong; and
- View that the flow of state aid distributions and debt service payment dates result in a strong timing-and-administrative-risk assessment.

Credit overview

The School District of Columbia benefits from participation in the broad and diverse Columbia metropolitan statistical area and is home to the University of Missouri's flagship campus. With 63% of fiscal 2019 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 'AA' underlying rating reflects our opinion of the district's:

- Adequate median household and per capita effective buying income, with residential and commercial development supporting steady tax base growth and strong per capita market value;
- Strong record of positive operating performance supporting reserves that we consider very strong, albeit with near-term plans for controlled drawdowns;
- Good financial management policies and practices; and
- Moderate per capita debt burden and low debt as a share of market value.

Outlook

The stable outlook on the 'AA+' program rating reflects our view of the state's creditworthiness and that Missouri's support for the program will likely remain strong. We expect coverage will likely remain strong during the two-year outlook given the program's structural features, recent state aid, and enrollment. Upward rating potential is limited given the state rating and appropriation risks. Should we lower the state rating or should state support or debt service coverage decrease, we could consider lowering the program rating.

The stable outlook on the 'AA' underlying rating reflects our expectation that the district will maintain stable operations and strong reserves, further supported by a stable economy, for the foreseeable future.

Upside scenario

We could raise the 'AA' underlying rating with ongoing and sustainable improvements in the district's wealth and income measures to levels that we consider better aligned with those of higher-rated peers and if the district maintains its reserves.

Downside scenario

We could lower the rating if the district experiences a multiyear run of operating deficits resulting in reserves declining below management's formal policy-mandated level of 18% to 20% of operating expenditures.

Credit Opinion

Stable economic base, with access to the Columbia metropolitan statistical area

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 (with 8,310 employees), the University Hospital and Clinics (4,831), the school district itself (2,530), and Veterans United Home Loans (1,817).

The district has experienced assessed valuation (AV) growth of 8.7% since fiscal 2018, to $2.6 billion. 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. Furthermore, officials report construction around the university, including apartment buildings and a hotel. The campus itself may undergo construction and funding of a new research facility in translational precision medicine, which is scheduled for fall 2021. 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.

Stable operations, with deficits planned for the near term

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 has seen modest enrollment growth over the past few school years, and management projects similar growth through the next few years, which should lend stability to operations.

The district has maintained strong operations, posting operating surpluses in each of past three audited years. Fiscal 2020 projections feature a nearly balanced budget in conjunction with a middle school opening in fall of 2020. Officials further report that the district intentionally built up reserves in preparation for the opening of the middle school and for the potential opening of three additional schools over the next four to five years. 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 result in draws on reserves over the next three years. 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.

Good financial management 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 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.

Low-to-moderate debt with manageable pension and other postemployment benefits exposure

Officials are planning to go for voter authorization in April 2020 for $20 million for an elementary school and in April 2022 for two school buildings, whereas $30 million will potentially be issued in 2022 and then another $30 million in 2024. Given the district's nominally significant debt burden and average amortization, an issuance of $80 million over the next five years would not materially affect the debt profile. The district has no variable-rate or direct purchase debt.

Manageable pension and other postemployment benefit (OPEB) liabilities:

- We do not consider pension and OPEB liabilities an immediate source of credit pressure for the district, given plan funding status and our view of the district's ability to absorb potential cost increases into its budget.
- The implicit subsidy arising from retirees' staying on the district's health plan while paying active premium rates

could result in higher OPEB costs, given claims volatility and medical cost and demographic trends, but, as with pensions, we expect the district to absorb these costs comfortably without pressuring operations in the medium term.

The district participated in the following multiple-employer, cost-sharing plans as of June 30, 2019:

- Missouri Public School Retirement System (PSRS): 84.1% funded with a district share of the net pension liability of $167.1 million; and
- Public Education Employee Retirement System (PEERS): 86.1% funded with a district share of $17.7 million.

The district additionally allows retirees to participate in its health and dental plans at their own cost. This creates an implicit subsidy for the district, as premiums are based on a blended rate for both active and retired employees.

Fiscal 2018 contributions to both PSRS and PEERS exceeded static funding, but fell short of our assessment of minimum funding progress. Contribution rates, set annually by plan trustees, are based on recommendations by plan actuaries. Despite some actuarial assumptions and methods that introduce risk of cost volatility and payment acceleration (such as a high rate of return assumption, the use of static mortality projections, and lengthy liability amortization periods), we think that likely medium-term costs are manageable given the size of the district's stable operations and long-term budgeting practices.

School District of Columbia, Mo., Financial And Operating Statistics

	Characterization	Most recent	Historical information		
		2019	2019	2018	2017
Economic indicators					
Population				151,620	150,458
Median household EBI as % of U.S.	Adequate			88	89
Per capita EBI as % of U.S.	Adequate			87	91
MV per capita ($)	Strong	75,859	72,050	69,759	67,987
Top 10 taxpayers as % of AV	Very diverse	5.4	4.6	4.8	4.8
Financial indicators					
Total adjusted available fund balance ($000s)			71,031	58,946	52,351
Total adjusted available fund balance as % of operating expenditures	Very strong		33	28.3	25.4
Governmental funds cash as % of governmental funds expenditures			66.2	48.4	42.8
General fund operating result as % of general fund operating expenditures			7.3	3.45	1.21
FMA	Good				
Enrollment		19,052	18,654	18,552	18,170
Debt and long-term liabilities					
Overall net debt as % of MV	Low	2.8	3.4	3.2	2.8
DS as % of governmental funds expenditures	Moderate		10.7	13.3	13.3
Pension ADC ($000s)			18,997	18,280	17,805

School District of Columbia, Mo., Financial And Operating Statistics (cont.)

	Characterization	Most recent	Historical information		
		2019	2019	2018	2017
OPEB contribution ($000s)					
ADC plus OPEBs as % of governmental funds expenditures		7.1	6.8	6.0	

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

Ratings Detail (As Of December 20, 2019)

Columbia Sch Dist taxable GO rfdg bnds ser 2020 due 03/01/2034		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	AA/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.