S&P Global
Ratings

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Summary:

Bayless Consolidated School District, Missouri; School State Program

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Summary:

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Credit Profile		
US$3.79 mil GO rfdg bnds ser 2020 due 03/01/2032		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
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 its 'AA+' long-term program rating to Bayless Consolidated School District of St. Louis County, Mo.'s series 2020 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA-' underlying rating and our 'AA+' program rating on the district's outstanding bonds. The outlook is stable.

Proceeds from the 2020 bonds will be used to refund existing GO bonds. The bonds are secured by unlimited ad valorem property taxes.

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;
- Our expectation that maximum annual debt service coverage on all parity debt by state aid payments, currently at 7.4x, will remain strong; and
- Our view that the flow of state aid distributions and debt service payment dates result in a strong timing and administrative risk assessment.

Credit overview

With support from strong assessed value indicators, the district displays a robust financial profile with positive performance results and strong reserve levels.

Credit factors include:

- A strong and growing assessed valuation, based on improvements in residential property values;
- Surplus operating results with strong fund balance levels, offering the district additional flexibility; and
- A low debt burden with slightly slower-than-average amortization and low carrying charges.

Outlook

The stable outlook on the state credit enhancement rating reflects our view of the state's creditworthiness and anticipation that its support for the program will remain strong. We expect that coverage will remain strong over the two-year outlook horizon given the program's structural features, recent state aid, and enrollment. Upward rating potential is limited because of the state rating and appropriation risks. Should we lower the state rating, or should state support or debt service coverage decline, we could consider a lower rating.

Downside scenario

If the local economy were to deteriorate or if reserve levels were to dip to levels commensurate with those of lower-rated peers, we could lower the underlying rating.

Upside scenario

If local economic indicators were to continue growing, along with the district adopting more formalized policies and procedures, we could raise the rating.

Credit Opinion

Growing local economy, resulting in increased residential valuations

The district's assessed valuation has seen significant growth in the past three years, due to a strengthening of residential property valuations. The district is currently experiencing new residential developments in the area as well. Approximately 85% of the district's tax base is residential.

Management has observed moderate population growth, with younger families moving to the district, which translates into enrollment growth trends.

Consecutive surplus operating results, supporting strong fund balances

The district has a strong record of posting surplus results in the combined general and special revenue funds. Management attributes this in part to a conservative budgeting approach.

In fiscal 2019, the district posted an operating result of an approximately $89,000 surplus, which was in part due to better-than-budgeted revenue, as well as some account recoding.

For fiscal 2020, the district is currently projecting a minor deficit that would reduce fund balances to approximately 25% of operating expenditures, which we view as strong. The district does not foresee any major budgetary pressures, while still monitoring economic indicators closely.

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.

Low debt burden and manageable pension obligations

With low overall net debt per capita and a low carrying charge, the district's debt profile constitutes a favorable credit factor. The amortization is slightly slower than average. Management has indicated that it does not expect to issue any additional debt in the next two years.

Pensions and other postemployment benefits (OPEBs):

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for the district, given our opinion of the strong plan funding status and modest escalating cost trajectory risk.
- The implicit subsidy created by the district's OPEB offerings will likely result in increasing costs given claims volatility and medical cost and demographic trends, as well as the district's funding of the benefits on a pay-as-you-go basis.
- Offsetting this risk somewhat is the minimal pressure expected from the district's pension liabilities, given the strong plan funding status and modest escalating cost trajectory risk.

The district participated in the following plans as of June 30, 2019:

- Missouri Public School Retirement System (PSRS): 84.6% funded, with the district's proportion of net pension liability measured at approximately $13.5 million.
- Public Education Employee Retirement System (PEERS): 86.4% funded, with the district's proportion of net pension liability measured at approximately $890,000.

The district additionally allows retirees to participate in the district's 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.

The district's required pension and actual OPEB contributions totaled 7.4% of total governmental fund expenditures in 2019. The district's actual 2018 required contributions for both PSRS and PEERS exceeded static funding, making some progress on reducing liabilities, but fell short of our assessment of minimum funding progress. Contribution rates, set annually by plan trustees, are based on recommendations by plan actuaries. Total contributions cannot increase by more than 1% for PSRS and 0.5% for PEERS, leading to contributions below actuarially determined contributions in some years, but 2018 contributions exceeded actuarially determined contributions for both plans. In general, we expect progress toward full funding to be slower given the amortization basis of level percent over a closed period of 30 years for both PSRS and PEERS. Furthermore, we believe the discount rate of 7.5% used for both plans could lead to contribution volatility.

Standard management practices, with policies in some but not all areas

Management looks at historical data and uses outside sources when preparing budgeting assumptions and provides the board with a budget-to-actual report monthly. The district reports investments to the board annually. The district lacks a debt management policy, as well as long-term financial and capital plans. The district also maintains an informal reserve target of 25%-30% reserves, with which it is currently in compliance.

Bayless Consolidated School District, Missouri--Financial And Operating Statistics

	Characterization	Most recent	Historical information		
			2019	2018	2017
Economic indicators					
Population				12,641	12,750
Median household EBI % of U.S.	Good			92	93
Per capita EBI % of U.S.	Adequate			85	88
MV per capita ($)	Strong	67,020	56,696	56,574	51,954
Top 10 taxpayers as % of AV	Very diverse	5.0	5.2	5.3	4.7
Financial indicators					
Total adjusted available fund balance ($000)			5,460	5,371	5,325
Total adjusted available fund balance as % of operating expenditures	Strong		29.7	31.3	33.1
Governmental funds cash as % of governmental fund expenditures			34.8	39.1	34.1
General fund operating result as % of general fund operating expenditures			0.48	0.26	1.68
FMA	Standard				
Enrollment		1,786	1,715	1,723	1,703
Debt and long-term liabilities					
Overall net debt as % of MV	Low	1.9	1.4	1.8	2.1
Debt service as % of governmental funds expenditures	Low		4.8	5.7	5.7
Required pension contribution ($000)			1,537	1,398	1,330
OPEB contribution ($000)					
Required pension plus OPEB contribution as % of governmental fund expenditures			7.4	7.4	6.6

EBI--Effective buying income. MV--Market value. AV--Assessed value. FMA--Financial Management Assessment. OPEB--Other postemployment benefits.

Ratings Detail (As Of February 19, 2020)

Bayless Cons Sch Dist GO State Enhancement Prog		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed