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Ratings

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Summary:

Park Hill School District (Platte County), Missouri; School State Program

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Table Of Contents

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Credit Profile		
US$31.91 mil GO rfdg bnds ser 2020 due 03/01/2030		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
Platte Cnty Sch Dist (Park Hill) STSCHPR		
Long Term Rating	AA+/Stable	Affirmed
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Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating (based on credit enhancement) and its 'AA' underlying rating (SPUR) to Park Hill School District (Platte County), Mo.'s approximately $31.91 million series 2020 general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA+' enhanced rating and 'AA' underlying rating on the district's GO debt outstanding. The outlook is stable.

Park Hill School District's full faith and credit pledge, payable from unlimited-ad valorem taxes levied on all taxable property within its taxing jurisdiction, secures the series 2020 bonds, with the Missouri Direct Deposit program providing additional security. Proceeds from the series 2020 bonds will be used to refund on a current basis the outstanding principal of the district's series 2011 and series 2012 bonds.

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 (AAA/Stable), reflecting our view of:

- State aid appropriation risk, which is partly mitigated by strong state support for the program and consistent, well-established state aid funding;
- Strong maximum annual debt service (MADS) coverage on all parity debt by state aid payments of 3.8x (based on fiscal 2019 pledged state aid revenue); and
- Flow of state aid distributions and debt service payment dates that result in a strong timing and administrative risk assessment.

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 to remain strong during the outlook period because of the program's structural features, recent state aid, and enrollment.

Credit overview

In our view, Park Hill School District maintains a strong financial position, supported by its historically steady budget performance and preservation of strong reserves on a modified cash basis, which are estimated at 21.9% of general and special revenue fund expenditures (or $34.3 million) at fiscal year-end (June 30) 2020. In addition, the district has experienced steady tax base and enrollment growth over the past decade, which has aided balanced local and state revenue growth and the build-up of strong available reserves. However, growth-related capital needs have contributed to a moderate-to-high debt burden compared to peers, and amortization is slower than average as debt service payments are somewhat back-loaded. The district's unaudited fiscal 2020 year-end balance reflects a planned $1.6 million draw on its available fund balance to help manage new costs associated with the opening of two new schools in the district, and officials are conservatively budgeting for reserves to decrease by as much as $1.78 million at fiscal year-end June 30, 2021. However, the district has conservatively built its budgets and historically outperformed its budget due to better-than-budgeted revenue growth and tight expenditure controls. At the same time, we believe ongoing social risks, including further state aid reductions or other recessionary pressures on the district's growth, could have an adverse effect on the district's budget performance over the near-term. Our outlook is generally up to two years, but we continue to evaluate potential risks to credit fundamentals for local governments caused by the COVID-19 pandemic and lingering recessionary effects that could still materialize over the next year.

Notwithstanding, the stable outlook reflects our view that the district's economic metrics, including extremely strong per capita wealth and strong income levels, are likely to remain resilient over the near-term given the district's steady tax base growth and proximity to the broad and diverse Kansas City MSA. In addition, the district's good financial management, supported by its long-term capital and financial planning and use of conservative revenue budgeting practices, will likely aid the district in maintaining credit stability. We also believe the district's informal reserve target to maintain between 18%-22% of operating expenditures and its preparedness to make timely budget adjustments, will remain important to its long-term credit quality.

For our latest U.S. economic forecast, see "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020 on RatingsDirect and our "Economic Research: U.S. Real-Time Data: The Economic Recovery Decelerates," published Oct. 8, 2020.

The 'AA' underlying rating reflects our view of the district's:

- Strong economic base, supported by access to the broad and diverse Kansas City and steady growth to the district's already extremely strong per capita market value, which complement its strong per capita and median household incomes;
- Overall strong finances and reserves (on a modified cash basis of accounting), albeit with periodic fluctuations in budgetary performance and cash reserves due to growth-related needs, but the district maintains good financial management practices and policies under our Financial Management Assessment (FMA) methodology, including comprehensive long-term financial and capital planning;
- Moderate overall net debt as a percent of market value and high overall net debt per capita, coupled with moderate

annual debt service expenditures, which could increase should the district's capital needs accelerate in future years; and

- Slower-than-average debt amortization.

Environmental, social, and governance factors

Our ratings incorporate our view of the health and safety risks posed by the COVID-19 pandemic, which is a social risk affecting most peers. We note that COVID-19 cases in Missouri have fluctuated since the onset of the pandemic and could have a continuing near- to medium-term effect on state and local economic and fiscal conditions. Any additional protective policy measures that the state takes, while important to health and public safety, could add pressure to the district's revenue in the form of further reductions in state aid. We have also analyzed the district's governance and environmental measures and believe these are in line with those of sector peers.

Stable Outlook

Downside scenario

If the district's budgetary performance were to undergo a sustained decline over consecutive years, due to structurally imbalanced operations or otherwise, leading to substantial draws on available reserves below levels commensurate with higher-rated peers, we could lower the district's underlying rating. While less likely, in our view, a simultaneous material deterioration of the district's wealth and income levels or increased debt issuance that weakens it overall net debt relative to similarly rated peers could intensify its downside risk.

Upside scenario

While unlikely over the outlook horizon, if the district preserves financial stability in light of ongoing recessionary pressures, including maintaining fund balances at least at current levels, while also addressing near-term financial challenges and growth-related needs, we could raise the rating. This, coupled with the district exhibiting resiliency and growth of its economic metrics and improvement of overall net debt conditions relative to higher-rated peers as conditions recover, could improve the likelihood of a higher rating.

Credit Opinion

Steadily growing economic base with a large residential presence and access to the Kansas City MSA

Park Hill School District serves an estimated population of 72,601. In our view, both median household effective buying income (EBI) and per capita EBI levels are strong at 129%. At the same time, estimated market value totaled $8.18 billion in 2020, which we consider extremely strong at $112,738 per capita. Over the past year, the district's net assessed value grew by a total of 7.4% to $1.88 billion in 2020. In our view, the district has exhibited higher per capita income and wealth metrics than the county as a whole. Approximately 5.7% of net assessed value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The district is primarily residential and is located in southern Platte County in the Northland region of the Kansas City Metropolitan Area, approximately 10 miles northwest of downtown Kansas City. A portion the Kansas City International Airport and auxiliary service facilities (e.g. car rental facilities and warehouses) are located within the district. Leading employers in the county include the Park Hill School District (1,868 employees), Adient, an automobile supplier (810), Argosy Casino Hotel & Spa (712), Saint Luke's Northland Hospital (667), and the Kansas City Aviation Department (520). As of August 2020, the county's unemployment rate was 6.2%, which compared favorably to the state average (7.1%).

Since 2015, the district reported a 25.7% increase in net assessed value. Officials attribute the most recent assessed valuation growth to new residential developments and in-fill redevelopment of commercial retail in the district. In light of this recent growth in local tax rolls, the district has experienced an uptick in tax appeals, which has contributed to timing delays with the receipt of local tax payments as the county holds the taxes until local tax appeal procedures are completed. While we continue to monitor economic conditions through the recessionary cycle, officials anticipate population and tax base growth to moderate over the next one to two years, as new construction of commercial, industrial, or residential developments are completed, but longer-term effects from the pandemic and recession are uncertain.

Given the district's location within the Kansas City MSA and its strong history of assessed value growth in both commercial and residential, we view this expectation as reasonable, and anticipate economic conditions to remain, at least, stable over the near term.

Strong cash-based reserves, but draws planned to support growth-related needs and aid pandemic recovery

The district reports its financial results under a modified cash basis of accounting and fiscal year end of June 30. We combined general fund and special revenue funds in our analysis of budgetary performance and flexibility. The district's budget performance has been slightly more-mixed recently due to implementation of its growing capital improvement program, but the district reported operating surpluses in two of the last three audited fiscal years. The lone negative result came in fiscal 2018, when the district planned to reduce its reserves by approximately $136,000 in order to manage to its informal general fund balance target, coupled with an increase in transfers of more than $3 million to the capital projects fund in preparation for a bond issuance and associated capital improvements. The district returned to positive operations in fiscal 2019, reporting a $4.2 million surplus.

The district's audited available cash reserve of $35.9 million is strong on a cash basis of accounting in our view, at 23.7% of general and special revenue fund expenditures at fiscal year-end (June 30) 2019. The district expects a negative operating result of $1.6 million, or 1% of expenditures at fiscal year-end 2020. Based on this anticipated operating result, the district will have approximately $34.3 million, or 21.9% of general and special revenue fund expenditures, which we view as strong.

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 adjust the annual tax levy to realize a local tax revenue increase equal to the lowest of the Consumer Price Index, 5%, or the actual percentage increase in assessed value (not accounting for new construction, which is separately realized in the levy), as long as the resulting tax rate remains below the maximum voter-approved amount. The district's operating revenue consists of revenue from local sources (67.1%), followed by state sources (25.7%) and federal sources (4.3%).

Officials estimate a $1.6 million budget deficit (or 1.0% of estimated operating expenditures) for fiscal 2020 based on unaudited fiscal year-end results. Prior to the pandemic, the district planned for a deficit in its budget to complete capital improvements and to anticipate increased operating costs related to the opening of a new elementary and middle school. According to officials, the state cut basic formula funding during the last two months of the fiscal year, resulting in roughly $700,000 reduction in the district's state aid revenue. The district has not yet received federal stimulus funds held by Platte County, one of the few counties in Missouri that has not distributed CARES Act funding to its school districts; the district is currently seeking $800,000 from the county to reimburse COVID-related expenses, which is factored into the projected deficit. Officials report approximately $500,000 in savings on the expenditure side due reduced transportation costs and reductions in part-time staffing of substitute teachers. Estimated actual results on the expenditure side greatly outperformed budget as a result of conservative budgeting.

For fiscal 2021, the district enacted a $169.6 million general fund and special revenue fund budget, and it budgeted for a deficit of $1.78 million, primarily reflecting budgeted reductions in state revenue, federal stimulus not being factored into budget, and potentially lower budgeted tax collection rate. Officials generally expect year-end results for fiscal 2021 to be closer to balanced and to maintain balanced operations in fiscal 2022, albeit with some uncertainty related to state-level funding and the impact of lingering recessionary pressures on the district's growth. The district also reports that it has set aside $3.5 million in its capital fund for capital purposes, and it can transfer this set-aside to the operating funds to address unexpected expenditures or revenue shortfalls, if necessary. Should the district reduce its fund balance by $1.78 million, it would result in a reserve balance that we still consider strong, at approximately 19% of general fund and special revenue fund. This would remain within the district's informal reserve target to maintain 18%-22% of general fund and special revenue fund expenditures.

Furthermore, the district's comprehensive financial projections show that the district is committed to maintaining its fund balance in the general fund in alignment with its 18%-22% target over the next three years. Therefore, we generally expect reserves to remain at least strong, and we will continue to monitor how state-level decisions and other longer-term growth trends affect the district's budgetary performance.

Student enrollment for 2019 totaled 11,611, an increase of 1.3% versus the previous year. At the beginning of the 2020-2021 academic year, officials report that kindergarten to grade 5 students are receiving fully in-person instruction, while students in grades 6-12 will follow a hybrid instruction model, with part-time online and part-time in-person instruction. Preliminary enrollment projections for the 2020-2021 academic year were estimated at 11,709 (or a 0.8% increase), but officials report slower-than-expected growth in enrollment, an anomaly that they attribute to the pandemic having an effect on kindergarten enrollment. Notwithstanding, enrollment trends have increased each year over the past decade, and based on its annual demographic profile and enrollment projections, the district anticipates enrollment growth to resume at a cumulative 7.4% rate over the next five years and 12.4% growth over the next 10 years. To accommodate potential growth, the district will consider the need for new school construction and expansion of existing facilities in its long-term capital planning.

Good management practices and policies

We consider the district's management practices good under our FMA 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.

The district looks at three- and five-year historical trends, and uses both in formulating its budget. Management tracks district enrollment projections, assessed value growth, and changes to state aid closely in development of revenue and expenditure assumptions. Finance officials also consult with outside sources, including state agencies and the county assessor's office. On a monthly basis, management provides a treasurer's report to the board that compares actual revenue and expenditure conditions to the adopted budget. While the budget is typically amended at year-end, district officials report that the board meets on financial matters regularly and can amend the budget more frequently, if necessary.

The district maintains both a comprehensive five-year capital improvement plan and a four-year long-term financial plan. The long-term capital plan identifies projects by function and object, costs, and sources of funding, and the plan is updated in the annual budget. The long-term financial plan is included with the budget and uses a four level pyramid system, projecting revenues, expenditures and fund balances for all funds, all operating funds, individual funds, and administrative funds. Each section of the financial plan explains significant changes in assumptions from the current year.

The district has a formal investment policy that follows Missouri state guidelines, and includes investments in its monthly treasurer's report shared with the board. Officials stated that they have an informal reserves target range of 18%-22% of general and special revenue fund, and a target of 65% to 85% of capital expenditures in the capital projects reserve. These targets were identified in conjunction with input from the community and the district has historically maintained reserves in accordance with this informal target.

Moderate-to-high debt and liability profile, albeit with no near-term debt plans

As a percentage of market value, we consider overall net debt to be moderate, at 6.0%, and high on a per capita basis at $6,246 in 2019. Although overall net debt as a percentage of market value is moderate, the district proportionate share of general obligation and appropriation debt of overlapping entities (including municipalities and counties) accounts for roughly 64% of the debt burden. We adjusted overall net debt by including both general obligation and appropriation debt in our overlapping debt calculations and the estimated percentage applicable to the district.

Following the series 2020 refunding, the district will have approximately $158.9 million in direct GO debt outstanding. Park Hill School District net direct burden as a percentage of market value is approximately 1.9%. Amortization is slower than average, with approximately 40% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 11.1% of total governmental fund expenditures excluding capital outlay in fiscal 2019, which we consider moderate.

The district has no immediate plans to issue additional debt, but officials are closely monitoring enrollment to study future capital needs. Given the pace of current enrollment trends and new residential growth in the district, officials will continue to monitor these trends and may consider potential growth-related school construction over a three- to five-year time horizon.

Pension and other postemployment benefit (OPEB) highlights

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for the district, given our opinion of the adequate 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, medical costs, 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 an estimated net pension liability of $101.2 million
- Public Education Employee Retirement System (PEERS): 86.4% funded with an estimated net pension liability of $12.4 million

In fiscal 2019, the district paid its full-required contribution of $11.77 million, or 5.1% of total governmental expenditures, toward its pension obligations in 2019. Plan-level 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 1.0% for PSRS and 0.5% for PEERS, leading to contributions below actuarially determined contributions in some years. 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 (eight years passed) and PEERS (seven years passed). Furthermore, we believe the discount rate of 7.5% used for both plans could lead to contribution volatility.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020