S&P Global Ratings

RatingsDirect®

Summary:

Columbia School District, Missouri; School State Program

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

Secondary Contact:
John A Kenward, Chicago + 1 (312) 233 7003; john.kenward@spglobal.com

Table Of Contents

Summary:

Columbia School District, Missouri; School State Program

Credit Profile		
US$4.69 mil GO rfdg bnds (Missouri Direct Deposit Prog) ser 2020C due 03/01/2033		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating and 'AA' underlying rating to Columbia School District, Mo.'s $4.7 million general obligation (GO) refunding bonds, series 2020C. The outlook is stable.

Proceeds from the bonds will refinance the district's outstanding series 2013 bonds. The bonds will be general obligations of the district and will be payable from ad valorem taxes that may be levied without limitations as to rate or amount upon all taxable property, real and personal, within the territorial limits of the district.

The state credit enhancement rating is one notch below the Missouri GO rating (AAA/Stable), reflecting our view of:

- State aid appropriation risks, which in our view are partially mitigated by strong state support for the program and consistent and well-established state aid funding;
- Our expectation that maximum annual debt service coverage on all parity debt by state aid payments, currently 2.64x, will continue to be strong; and
- Our view that the flow of state aid distributions and debt service payment dates result in a strong assessment of timing and administrative risks.

The stable outlook on the state credit enhancement rating reflects our view of the state's creditworthiness and that its support for the program will remain strong. We expect that coverage will remain strong over the outlook horizon given the program's structural features, recent state aid, and enrollment.

Credit overview

Despite Missouri-enacted state cuts and reduced Proposition C revenues, the district's latest estimates for fiscal 2020 project a surplus operating result. Taking into account continued pressures on state aid, as well as increasing operating costs related to a new middle school building, the district is budgeting a deficit result for fiscal 2021. The district currently maintains very strong reserves, and management expects them to remain above the board-approved fund balance policy, which we believe to be a positive credit factor, given continuing uncertainties regarding effects from the COVID-19 pandemic and recessionary pressures. We do note that the district's enrollment decreased notably for fiscal 2021, due to home schooling and other alternatives during the pandemic. The district's local economy had initially experienced some impacts from the pandemic, particularly regarding layoffs and furloughs among its employers and taxpayers, which include the University of Missouri, though it has since somewhat stabilized. The city continues to see population growth, and management has indicated that there is ongoing residential and commercial development. Given the ongoing pandemic and the lingering effects from the recession, we believe additional impacts may still occur on the district's overall credit profile in the next six to 12 months (The U.S. Economy Reboots, With Obstacles Ahead).

Credit factors include:

- An estimated surplus operating result in fiscal 2020, adding to very strong reserves capable of absorbing potential revenue or cost pressures;
- A stable local economy with ongoing residential and commercial development, supporting growing population levels; and
- Good management, with long-term capital and financial planning.

Environmental, social, and governance factors

Our ratings incorporate our view regarding the health and safety risks posed by the COVID-19 pandemic, which is a social risk affecting most peers. Absent the implications of COVID-19, we have also analyzed the district's governance and environmental measures, as they relate to its overall credit profile and believe these are in line with sector peers.

Stable Outlook

Downside scenario

If the district's financial performance were to deteriorate due to recession, state aid cuts, enrollment losses, or imbalance, resulting in reserves no longer comparable with those of similarly rated peers, we could lower the rating.

Upside scenario

If the district's local economy were to continue growing, demonstrated by significantly higher income indicators, comparable with those of higher-rated peers, we could raise the rating.

Credit Opinion

Growing local economy with continued residential and commercial development and ongoing population growth

The district's local economy had initially been somewhat affected by the COVID-19 pandemic and the recession. Its largest employer, the University of Missouri, had announced layoffs, furloughs, and salary reductions, which have affected over 5,000 employees across all campuses. Management notes that the two other largest employers, one of which is the school district itself, have not taken such measures. Many small businesses in the area had temporary halted operations, though all have since reopened. We note that the local economy has seen increased activity over the last few months, demonstrated by a significantly reduced unemployment rate of 2.9% in September 2020, down from a peak of 6.5% in April and May.

The district has experienced 34.2% growth in population over the last 10 years, and it continues to see residential and commercial development. The city of Columbia's strong incentive program continues to attract businesses and jobs. Assessed valuation has grown approximately 16.6% since fiscal 2016, and management expects it to continue growing.

Given the ongoing pandemic and the lingering effects from the recession, we believe additional impacts may still occur on the district's local economy in the next few months.

Estimated surplus operating result for fiscal 2020, sustaining already very strong reserves

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. In fiscal 2019, 63% of operating revenues were from local sources, followed by 32% from state sources. We note that the district's enrollment declined by approximately 800 students, or 4.4%, in fiscal 2021 due to parents electing home schooling or other options during the pandemic. However, given the option for Missouri school districts to choose the higher enrollment figure of the last three fiscal years, we do not believe this will materially affect the district in the short term. Management is expecting these students to return to the district when conditions normalize and expects overall enrollment to continue growing.

The latest estimates for fiscal 2020 project a surplus operating result of approximately $14 million, which would increase the district's unrestricted fund balance to 41%. These estimates include reduced Proposition C revenues, as well as cuts to state aid, enacted by Missouri in June. While the district incurred some costs related to distance learning, such as the installation of hotspots and the mailing of paper packages, it did also experience reduced expenses related to transportation, teacher substitutes, professional development, and other similar costs.

The district is intentionally budgeting a deficit operating result of approximately $17 million for fiscal 2021, though latest estimates currently project a slightly better-than-anticipated result. With the opening of a new school building in the fall, the district has hired additional teaching and administrative staff. The district is currently operating on a virtual model and is expecting savings in transportation, utilities and staffing costs. At the same time, the district underwent some technology upgrades and hotspot installations, which were covered by approximately $2.9 million in total assistance funds, including Coronavirus Aid, Relief, and Economic Security (CARES) Act funds.

While current projections indicate some drawdowns on reserves over the next few years, the district is planning on keeping reserves at least in line with its fund balance policy of 18% to 20% of expenditures.

Despite the district's strong track record of posting surplus operating results over the last few years, we do believe that negative variances may materialize in the budget, due to the ongoing pandemic and the lingering effects from the recession, particularly with regard to further pressure on state aid and potential tax-based weaknesses. However, we do note that the district maintains very strong reserves capable of absorbing revenues losses or cost pressures.

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 regularly monitor all of them.

Highlights of the district's financial management policies and practices include the use of both historical data and 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 a 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.

Moderate debt burden with average amortization and additional debt plans in the next few years

With the issuance of the 2020B bonds, the district will have approximately $326 million in debt outstanding. We believe overall net debt to be moderate at $2,198 per capita. With 53% of the debt to be retired in 10 years, we believe amortization is average. Management has indicated some additional new-money debt plans over the next few years amounting to approximately $60 million. We do not believe these additional plans will significantly alter the district's debt profile.

Pension and other postemployment benefit (OPEB) obligations

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, 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 a government's proportionate share of net pension liability of approximately $166 million, and
- Public Education Employee Retirement System (PEERS): 86.4% funded with a government's proportionate share of net pension liability of approximately $18 million.

The district's required pension and actual OPEB contributions totaled 7.1% of total governmental fund expenditures in 2019. The district's actual 2019 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 (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.

Columbia School District, Missouri--Financial And Operating Statistics					
	Characterization	**Most recent**	**Historical information**		
			2020	**2019**	**2018**
Economic indicators					
Population				153,209	151,620
Median household EBI % of U.S.				89	88
Per capita EBI % of U.S.				89	87
MV per capita ($)	Strong	76,032	76,032	72,050	69,759
Top 10 taxpayers as % of AV	Very diverse		5.4	4.6	4.8
Financial indicators					
Total adjusted available fund balance ($000)				71,031	58,946
Total adjusted available fund balance as % of operating expenditures	Strong			33.0	28.3
Governmental funds cash as % of governmental fund expenditures				66.2	48.4
General fund operating result as % of general fund operating expenditures				7.30	3.45
FMA	Good				
Enrollment			19,052	18,654	18,552
Debt and long-term liabilities					
Overall net debt as % of MV	Low		2.8	3.4	3.2
DS as % of governmental funds expenditures	Moderate			10.7	10.7
Required pension contribution ($000)				18,997	18,280
OPEB contribution ($000)					
Required pension plus OPEB contribution as % of governmental fund expenditures				7.1	6.8

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

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of November 25, 2020)		
Columbia Sch Dist GO rfdg bnds (Missouri Direct Deposit Prog) ser 2020C due 03/01/2033		
Long Term Rating	AA+/Stable	Rating Assigned
Underlying Rating for Credit Program	AA/Stable	Rating Assigned