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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$12.15 mil taxable GO rfdg bnds (Missouri Direct Deposit Prog) ser 2021 due 03/01/2023		
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
Platte Cnty Sch Dist (Park Hill) STSCHPR		
Long Term Rating	AA+/Stable	Affirmed
Platte Cnty Sch Dist (Park Hill) STSCHPR		
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 to Park Hill School District (Platte County), Mo.'s approximately $12.1 million series 2021 taxable 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 2021 bonds, with the Missouri Direct Deposit program providing additional security. Proceeds from the series 2021 bonds will advance refund the outstanding principal of the district's series 2017 bonds, accelerating a principal payment originally due in 2037 to 2022 and 2023, which will generate interest cost 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 (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 2.9x (based on fiscal 2020 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 will remain strong during the outlook period because of the program's structural features, recent state aid, and enrollment.

Credit overview

Park Hill School District maintains a strong financial position, supported by its historically steady budget performance and preservation of strong reserves. However, growth-related capital needs have contributed to a moderate debt burden with average amortization. Further, the district could issue a substantial amount of debt within the next year for a new building and for renovations to existing structures. The 'AA' rating further 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 metropolitan statistical area (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.

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

- Strong economic base, supported by access to the broad and diverse Kansas City MSA and steady growth to the district's already extremely strong per capita market value, which complement its strong per capita and median household incomes;
- Good financial management practices and policies under our Financial Management Assessment (FMA) methodology, including comprehensive long-term financial and capital planning; and
- Positive enrollment trends, a key factor in Missouri school finance.

Partially offsetting these strengths, in our view, is the district debt burden, which is higher than that of similarly rated school districts and it is expected to worsen with future debt plans.

Environmental, social, and governance (ESG) factors

We have also analyzed the district's ESG risks and believe these are in line with those of sector peers. While the district was the victim of a cyberattack in March 2021, the attack only temporarily caused a limitation in the district's access to its data, the district did not have to pay a ransom to disable the attack and obtain access to its servers, and its insurance covered all costs associated with the incident. We therefore view the district's governance risks as being in line with the sector standard despite the incident because of the district's adequate handling of the incident.

Stable Outlook

Downside scenario

Should the district's debt profile worsen materially because of substantially higher debt levels that are no longer consistent with the district's current rating, we could lower the rating. In addition, if the district's cash reserve experiences a sustained decline over consecutive years, due to imbalanced operations, we could lower the underlying rating.

Upside scenario

While not expected during the outlook horizon, if the district builds its reserves to significantly higher levels, while exhibiting continued improved tax base growth and improvement of overall net debt conditions relative to those of higher-rated peers, we could raise the rating.

Credit Opinion

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

Park Hill School District is primarily residential and it is 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. Benefiting from access to the Kansas City MSA, the city's incomes and wealth levels are both well above average and strengths of the district's credit profile.

The district reported substantial increases in assessed value (AV) in the past six years, a trend that continued with the district's latest tax base data. Preliminary numbers for 2021 indicate a 12% increase. Officials attribute the most recent AV growth primarily to new residential developments and in-fill redevelopment of commercial retail in the district.

Strong cash-based reserves, anchored by a fund balance target of 18%-22% of expenditures

The district reports its financial results under a modified cash basis of accounting. In assessing the district's finances, we combine general fund and special revenue funds. The district's audited available cash reserve of $34.3 million is strong on a cash basis of accounting, in our view, at 21.9% of general and special revenue fund expenditures at fiscal year-end (June 30) 2020.

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 it 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 AV (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%).

For unaudited fiscal 2021, the district budgeted for a deficit of $1.1 million, primarily reflecting budgeted reductions in state revenue, federal stimulus not being factored into budget, and potentially lower budgeted tax collection rate. The district expects to report a $1 million surplus, reflecting, in part, lower substitute teaching costs and reduced transportation expenses. In terms of pandemic relief aid, the district received approximately $4.3 million from federal, state, and local sources this fiscal year.

For fiscal 2022, the district has adopted a $450,000 deficit budget to reduce its cash reserve to fit within its fund balance target of 18%-22%. The district is slated to receive approximately $9.4 million in federal pandemic relief pursuant to the Elementary and Secondary School Emergency Relief (ESSER) fund allocations. The substantial increase in the district's AV will cause a reduction of its levy, pursuant to the state's Hancock Amendment, which limits the annual growth of property tax rate increases.

The district posted a $1.6 million budget deficit (or 1.0% of estimated operating expenditures) for fiscal 2020. 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. The state cut basic formula funding during the past two months of the fiscal year, resulting in approximately $700,000 reduction in the district's state aid revenue. Officials report approximately $500,000 in savings on the expenditure side due reduced transportation costs and reductions in part-time staffing of substitute teachers during the pandemic.

The district's student enrollment has been robust historically, although it moderated in fiscal 2021 because of the effects of the pandemic, leading many families to homeschool their children. The district anticipates 1.5% growth in enrollment during the next five years. To accommodate growth, the district will likely seek authorization for a new elementary school building in April 2022.

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, tracks enrollment projections, AV 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 (CIP) and a four-year long-term financial plan. The long-term CIP 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 projects 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 it 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%-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.

The district was the victim of a ransomware attack in March 2021. Officials did not pay a ransom to recover the district's data and its data was not permanently impaired because of the attack, and its insurance covered all costs associated with the incident.

Moderate debt profile, although future debt plans, if authorized, would likely weaken this assessment

Both as a percent of market value and on a per capita basis we consider the district's debt burden will be moderate. With the current borrowing, the district's amortization is average, at 54% of debt retired within 10 years.

The district expects to seek voter authorization for a new elementary school and renovations for multiple school buildings in April 2022. The expected borrowing amount is $120 million, which would significantly worsen the district's profile, in our view.

Pension and other postemployment benefits (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, 2020:

- Missouri Public School Retirement System (PSRS): 82% funded with an estimated net pension liability of $123.3 million
- Public Education Employee Retirement System (PEERS): 84.1% funded with an estimated net pension liability of $15.6 million

Pension contributions for the district represented 5.6% of total governmental expenditures in 2020. Plan-level contributions for both PSRS and PEERS met or 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 will be slower given the amortization basis of level percent over a closed period of 30 years for both PSRS (nine years passed) and PEERS (eight years passed). Furthermore, we believe the discount rate of 7.5% used for both plans could lead to contribution volatility.

Park Hill School District (Platte County), Mo.--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			73,777	72,601	70,505
Median household EBI % of U.S.	Strong		122.0	129.0	121.0
Per capita EBI % of U.S.	Strong		121.0	129.0	121.0
Market value ($000)		8,184,870	8,123,625	7,506,841	7,286,233
Market value per capita ($)	Extremely strong	110,941	110,111	103,399	103,343
Top 10 taxpayers % of taxable value	Very diverse	5.7	5.7	9.4	9.7
Financial indicators					
Total available reserves ($000)			34,313	35,908	31,682

Park Hill School District (Platte County), Mo.--Key Credit Metrics (cont.)					
	Characterization	**Most recent**	**Historical information**		
			2020	**2019**	**2018**
Available reserves % of operating expenditures	Strong		21.9	23.7	21.9
Total government cash % of governmental fund expenditures			4.9	15.7	25.8
Operating fund result % of expenditures			(1.0)	2.8	(0.1)
Financial Management Assessment	Good				
Enrollment			11,611	11,458	11,282
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	4.4	4.9	6.0	6.1
Overall net debt per capita ($)	Moderate		5,441	6,246	6,314
Debt service % of governmental fund noncapital expenditures	Low		6.8	11.1	11.1
Direct debt 10-year amortization (%)	Average	54.0	43.0	40.0	42.0
Required pension contribution % of governmental fund expenditures			5.6	5.1	6.4
OPEB actual contribution % of governmental fund expenditures			0.0	0.0	0.0
Minimum funding progress, largest pension plan (%)			85.6	90.6	90.9

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- 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