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Summary:

Cedar County R-II School District (El Dorado Springs), Missouri; School State Program

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Credit Profile

US\$7.36 mil go rfdg & imp bnds (Missouri Direct Deposit Program) ser 2017 due 03/01/2037

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Cedar County R-II School District (El Dorado Springs), Mo.'s series 2017 general obligation (GO) refunding and improvement bonds. The outlook is stable.

Governing statutes

In 1995, the Missouri Legislature adopted Senate Bill 301, which established a program to assist Missouri school districts with their financing needs. This rating moves in tandem with the state GO rating, keeping the relative rating differential between the program and state GO rating constant.

Eligibility requirements

Any school district is eligible to apply to the state to use the program as an additional bond security. Program guidelines specifically exclude any type of obligation other than GO bonds. Conditions for state approval include a state aid coverage requirement plus the district's entry into a binding direct deposit agreement with the state to divert monthly state aid to a trustee-held debt service fund. To enter the program, districts must meet coverage requirements of state aid in each of the past three fiscal years covering maximum annual debt service by at least 1.5x and agree to the state's making direct deposit of its monthly state aid payments to a state-selected direct deposit trustee. Once debt has been issued using this program, the district cannot pledge state aid as a primary or parity security to any nonprogram obligation as long as any program debt is outstanding. Participating school districts waive all rights and privileges to institute any action authorized by any act of Congress relating to bankruptcy.

Program provisions

The Missouri program provides for a first-dollar claim on monthly state aid, which will be directly deposited to a master bond trustee. Program oversight and management is the responsibility of the Missouri Health and Educational Facilities Authority (MOHEFA), as is the ability to establish operating guidelines. MOHEFA also pays certain issuance costs for participating school districts. Under the program, a school district enters into a direct deposit agreement with the state to fund a debt service payment account for either individual issues or participation in a MOHEFA-issued pooled financing. Upon application approval, a district can use this security enhancement for new and refunding issues.

The state aid flowing to the direct deposit trustee are the first dollars of the district's monthly state aid payment. The trustee, in turn, remits to each independent district paying agent the required principal and interest at the required

times. MOHEFA, the Department of Elementary and Secondary Education, the Office of Administration, and the treasurer's office coordinate activities to operate the direct deposit mechanism.

The direct deposit agreement establishes a schedule for which months' state aid payments will flow to the trustee, along with monthly incremental requirements (for example, if there are 10 months of direct deposit payments, each month's requirement will equal one-10th of annual debt service). If any monthly payment is insufficient to meet the scheduled increment requirement, the next monthly direct deposit will make up the shortfall and include that month's required payment. Although the annual debt service payments will be paid prior to receipt of the full year's state aid, the direct deposit account has access to its entire annual state aid appropriation, if needed.

To eliminate the risks associated with late state budget adoptions or midyear state aid reductions, debt service payment dates cannot be in the ending or beginning months of the state's fiscal year. All direct deposit funds and MOHEFA-held money will be invested in securities that meet S&P Global Ratings' investment criteria.

Outlook

The stable outlook on the enhanced rating reflects S&P Global Ratings' assessment of the strength of the direct deposit structure and moves in tandem with the state GO rating and outlook.

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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