

RatingsDirect®

Summary:

St. Louis County R-6 School District (Rockwood), Missouri; General Obligation

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Credit Profile

| | | |
|--|------------------|----------|
| US\$31.1 mil GO bnds ser 2019 due 02/01/2029 | | |
| <i>Long Term Rating</i> | AAA/Stable | New |
| St. Louis Cnty R-6 Sch Dist (Rockwood) GO | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| St. Louis Cnty R-6 Sch Dist (Rockwood) GO | | |
| <i>Unenhanced Rating</i> | AAA(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to St. Louis County R-6 School District (Rockwood), Mo.'s series 2019 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the district's GO debt outstanding. The outlook is stable.

The bonds are secured by revenue from an unlimited ad valorem tax on all taxable property in the district. Proceeds of the bonds will be used to pay the costs of major capital renovations and improvements on school sites, buildings, and related facilities.

Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the district's GO bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, U.S. local governments are considered moderately sensitive to country risk.

Local-government-derived revenue is the primary source of security on the bonds. The institutional framework in the U.S. is predictable with significant state autonomy and flexibility, demonstrated by high debt service coverage and serial bond amortization, as well as independent treasury management. In addition, the federal government has no history of intervening in a school district's revenue generation or treasury operations. For these reasons, we believe the district would maintain the ability to collect property tax revenue and state aid despite a sovereign default. Moreover, what we consider the district's very strong general fund balance as a percentage of expenditures demonstrates its financial flexibility.

Credit overview

Rockwood School District's participation in St. Louis, Mo.'s broad and diverse economy--as a major independent city and inland port--provides for a stable economy with a growing revenue base. The tax base has shown double-digit growth in recent years, exceeding \$4 billion in assessed valuation with additional residential construction underway.

Management has leveraged growth with stable operations and salary increases for teaching staff and projects surpluses for the following two fiscal years. The debt burden is manageable and, with rapid amortization, will likely remain low-to-moderate over the next several years.

- Stable local economy, further supported by very strong income indicators and low unemployment rates;
- Very strong finances, supported by increasing property valuations, conservative budgeting, and good financial management policies under our financial management assessment methodology; and
- Low-to-moderate overall net debt with rapid direct debt amortization and limited plans to issue additional debt in the medium term.

Outlook

Downside scenario

We could lower the rating if reserves were to deteriorate significantly or if economic conditions were to weaken to a point where we would no longer consider the credit profile commensurate with the current rating.

Credit Opinion

Expanding economy, led by residential construction and participation in the St. Louis metropolitan area

The roughly 150-square-mile district is in western St. Louis County, where it covers all or portions of 20 communities, including Ballwin, Chesterfield, Ellisville, Eureka, Fenton, Manchester, and Wildwood. District residents have access to employment opportunities in the diverse St. Louis MSA economy. Leading district employers include the school district itself (3,610 employees), Six Flags Amusement Park (3,091), a sales and marketing firm (1,700), and a health care center (1,100).

Assessed valuation (AV) has increased by 21% in fiscal years 2017 to 2020. Management partly attributes the AV increase to construction and the 2017 and 2019 reassessment years. Officials expect AV to grow to continue with roughly 2,300 homes set for construction over the next five years. While management expects at least 3% AV growth annually in reassessment years, it assumes 1% for non-reassessment years.

Student enrollment is 20,899 for the 2019-2020 school year, having decreased overall from 2013-2019. However, enrollment has remained near 21,000 for the past few years. We expect modest enrollment increases through the 2022 school year based on the construction of multiple residential developments in the district.

Strong financial position with mostly operating surpluses and conservative budgeting

The district reports its finances on a modified accrual basis of accounting with a June 30 fiscal year end. Its operating revenue mostly consists of property taxes (54%), followed by local sources (27%) and state sources (16%), which is a good mix, in our view, given the growing tax base and enrollment.

The financial position is very strong, bolstered by growing revenue sources from property tax revenue, despite a small deficit in fiscal 2018. Officials attribute the recent deficit to an increase in uncollected taxes, from tax year 2017 being a

reassessment year with near-double-digit growth. Historically the district has budgeted for a 97.5% collection rate, but has reduced this assumption to 97% for fiscal 2020 and beyond. In addition, as a result of a strategic plan to reduce classroom size at the elementary level, the district added 15 full-time teaching staff. The shortfall in revenue and added salary expense resulted in a net decrease in the fiscal 2018 fund balance.

For fiscal 2019, management originally budgeted for a surplus of about \$100,000, but now estimates an approximate \$1 million surplus, largely as a result of collection of delinquent taxes from the prior fiscal year. Management adopted a deficit operating and teacher fund fiscal 2020 budget but forecasts achieving a surplus, as revenue sources are expected to increase as a result of further increases in AV and enrollment, which positively affect state funding. Personnel and related expenses are expected to rise in the coming budget year, but predictably.

Good FMA, supported by sound policies and practices

We consider the district's management practices good under our financial management assessment (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.

Highlights include management's:

- Budget assumptions that incorporate three years of historical data;
- Monthly budget monitoring and reporting to the school board;
- Annual preparation of multiyear financial projections;
- Formal investment policy with quarterly investment reports to the board; and
- Formal fund balance policy of maintaining 18% of expenditures for cash purposes, as well as an additional 4% stabilization fund.

However, we understand the district lacks a rolling five-year capital plan or debt management policy.

Debt profile is manageable given the sizable tax base and rapid amortization

Overall net debt is moderate on a per capita basis at \$2,215. With 80% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid.

The district may issue as much as \$30 million in (new money) debt over the next two to three years to address capacity needs. As a result of rapid amortization, this additional issuance would not weaken the debt profile.

Furthermore, the district has approximately \$9.8 million in privately placed capital leases outstanding. However, we view the risks to the district's liquidity as limited, as provisions in the agreement allow for the acceleration of only one year of debt service.

Pension and other postemployment benefit liabilities are adequately funded and sustainable

The district contributes to the Missouri Public School Retirement System (PSRS) and the Missouri Public Education Employees' Retirement System (PEERS), both of which are cost-sharing, multiple-employer, defined benefit pension plans. Missouri's PSRS and PEERS plans are 86% and 84% funded, respectively. The district made its required annual contribution to these plans. It also provides OPEB to certain eligible employees on a pay-as-you-go basis. At June 30, 2018, the district had an OPEB unfunded actuarially accrued liability of \$62.2 million. Although fixed pension and

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OPEB costs represent low budgetary pressure, OPEB costs will likely accelerate as liabilities become realized as a result of its pay-as-you-go funding.

St. Louis County R-6 School District (Rockwood) Financial And Operating Statistics

| | Characterization | Most recent | | Historical information | |
|---|-------------------------|--------------------|-------------|-------------------------------|-------------|
| | | 2020 | 2019 | 2018 | 2017 |
| Economic indicators | | | | | |
| Population | | | 120,768 | 121,179 | |
| Median household EBI as % of U.S. | Very strong | | 167 | 171 | |
| Per capita EBI as % of U.S. | Very strong | | 160 | 160 | |
| MV per capita (\$) | Extremely strong | 155,902 | 13,941 | 140,601 | 127,767 |
| Top 10 taxpayers as % of AV | Very diverse | | 4.6 | 4.5 | 4.5 |
| Financial indicators | | | | | |
| Total adjusted fund balance (\$000) | | | 50,236 | 53,903 | |
| Total adjusted fund balance as % of operating expenditures | Very strong | | 20.07 | 22.27 | |
| Governmental funds cash as % of governmental funds expenditures | | | 53.36 | 41.7 | |
| General fund operating result as % of general fund operating expenditures | | | (1.38) | 0.03 | |
| FMA | Good | | | | |
| Enrollment | | 20,899 | 20,964 | 20,952 | |
| Debt and long-term liabilities | | | | | |
| Overall net debt as % of MV | Low | 1.4 | 1.6 | 1.6 | 1.3 |
| DS as % of governmental funds expenditures | Moderate | | 10.15 | 10.15 | |
| Pension ADC (\$000) | | | 21,308 | 20,809 | |
| OPEB contribution (\$000) | | | 1,283 | | |
| ADC plus OPEBs as % of governmental funds expenditures | | | 7.39 | 6.87 | |

EBI--Effective buying income. MV--Market value. AV--Assessed value. FMA--Financial Management Assessment. DS--Debt service. ADC--Actuarially determined contribution. OPEB--Other postemployment benefit.

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