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Ratings

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Summary:

St. Louis County Parkway School District C-2, Missouri; General Obligation

Primary Credit Analyst:
Coral Schoonejans, Centennial + 1 (303) 721-4948; coral.schoonejans@spglobal.com

Secondary Contact:
Alexander Vargas, CFA, Chicago (1) 312-233-7093; alexander.vargas@spglobal.com

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Credit Profile		
US$55.0 mil GO bnds ser 2020 due 03/01/2040		
Long Term Rating	AAA/Stable	New
St Louis Cnty Sch Dist C-2 Parkway GO		
Long Term Rating	AAA/Stable	Affirmed
St Louis Cnty Sch Dist C-2 Parkway GO		
Long Term Rating	AAA/Stable	Affirmed
St Louis Cnty Sch Dist C-2 Parkway GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to St. Louis County Parkway School District C-2, Mo.'s $55 million series 2020 general obligation (GO) bonds. At the same time, we affirmed our 'AAA' long-term rating on the district's GO debt outstanding. The outlook is stable.

We rate the district higher than the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. In 2019, local property taxes generated 86.5% of combined operating fund revenue, demonstrating a lack of dependence on central government revenue.

The district's GO pledge secures the bonds, payable from revenue from ad valorem taxes that may be levied without limitation as to rate or amount on all taxable property within its borders. Officials will use series 2020 bond proceeds to improve school safety and security, as well as to maintain, repair, improve, furnish, and equip school sites and facilities.

Credit overview

The district's strong economic base, coupled with officials' good financial management policies and practices, have supported the district's strong operations and maintenance of very strong reserves. In our view, its very strong wealth and income levels with access to regional employment centers are likely to support credit stability. Further supporting credit stability is the district's low reliance on state aid revenue compared with peers, which reduces risk of revenue volatility. Our outlook is generally for two years, but we see significant risks as a result of the COVID-19 pandemic and the ensuing recession over the next six to 12 months.

The rating reflects our view of the district's:

- Very strong income and extremely strong market value per capita, with resident access to the broad and diverse St. Louis metro;
- Strong track record of surplus operating performance with very strong and sizable reserves; and
- Low-to-moderate debt levels, including low overall net debt as a percentage of market value and manageable carrying charges.

For our latest U.S. economic forecast, see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020 on RatingsDirect. See also "U.S. Economic Report: U.S. Real-Time Economic Data Continues To Paint A Mixed Picture," published Aug. 14, 2020.

Environmental, social, and governance factors

The rating incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider a social risk factor. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the district's local economy and affect state and local revenue. However, the COVID-19 pandemic is not affecting the district more than other sector standards. We also analyzed its environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district were to experience a sustained or substantial weakening of budgetary performance, leading to a deterioration of reserves and constrained liquidity.

Credit Opinion

Historically strong local economy situated in St. Louis County

The city and county anchor the broad and diverse St. Louis metropolitan statistical area and serve as the cultural, financial, health care, and educational center for nearly 3 million people in seven counties in Missouri and eight in Illinois. The district is connected to interstate highways 64 and 270, widening resident access to regional employment centers. The district hosts a diversified local employment base across various sectors, including education and health care services, professional services, commercial retail, and manufacturing, as well as finance, insurance, and real estate. Larger employers in the area include St. John's Mercy Medical Center (with 23,011 employees), Schnucks Markets Inc. (retail grocery; 10,702), and Bayer Monsanto (an agrochemical company; 5,400). In July 2020, St. Louis County's unemployment rate averaged 7.8%.

Assessed value (AV) increased modestly over the past year by 10% to $5.2 billion, largely as a result of fiscal 2020 being a reassessment year. Officials report of preliminary construction for fiscal 2021, which will add approximately $20 million to AV ($15.3 million in new residential and $4.7 million in new commercial). We anticipate that the local economy will remain strong, but will monitor through the recessionary cycle.

Very strong budgetary flexibility, bolstered by consecutive surplus operations

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. However, we note that the district is considered "hold harmless" under the state's funding formula, indicating that its finances are insulated from enrollment variations. 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. We further note that the district has a voluntary rollback in its operating levy, and that if it were to levy at the maximum levy rate, it could generate roughly $7 million in additional annual revenue. We view this additional revenue-raising flexibility as a credit positive. Enrollment has increased each year since 2015, with the exception of a slight drop in the 2020-2021 school year. Officials attribute the recent downturn to some families' turning to private school for more in-class options. The school district is offering classes fully online, but plans to host socially distanced in-person options beginning in the second quarter of the school year.

The district's available fund balance of $41.3 million (which consists of the combined general and special revenue funds) was very strong, in our view, at 17.5% of the combined funds' expenditures at fiscal year-end (June 30) 2019. Its operating revenue consists primarily of local sources (86.5%), followed by state sources (4.9%). We note that the district's low reliance in state aid revenue compared with peers provides additional revenue stability, especially during the recessionary environment, whereas the state made cuts to state aid funding at the end of fiscal 2020 and into 2021.

Management has maintained very strong operations by implementing a sound budgeting framework, including conservative expenditure assumptions with strong fiscal oversight and institution of long-term planning for changes to tax base growth, enrollment, and state aid. As a result, the district has posted operating surpluses in each of the past seven audited years. Officials intend to continue increasing the district's reserves by 0.25 percentage point per year to roughly 22% to 24%% of expenditures across the operating funds to avoid cash flow borrowing.

Fiscal 2020 estimated actual results show a surplus of $7.3 million, or 3.1% of estimated actual expenditures. District operating revenue increased overall from the previous year as a result of large increases in AV and a sizable decrease in lost revenue from protested tax settlements. The district paid back less than $1 million in settlements, whereas settlements typically amounted to $4 million to $7 million in prior years. State formula revenue decreased by about $460,000 during the last two months of the fiscal year, but the district saved a similar amount in energy from early building closures. Furthermore, the district continued to pay entire payroll through the end of the fiscal year, but kept about 110 positions on hold with savings of about $320,000 per month and offered voluntary furlough with savings of about $260,000 per month.

For fiscal 2021 the district is budgeting for a $1.5 million surplus, or 0.6% of budgeted expenditures, with assumptions such as lower tax collection and reductions in Prop C sales tax revenue and state aid, and spent $1 million out of pocket for Chromebooks that will not be reimbursed. The district continues to have the option of voluntary furlough and has an agreement among coaches of 25% reduced pay. It has applied for about $300,000 in Federal Emergency Management Agency funding for desk partitions and sanitation. Given the district's record of strong operations as well as management's well-grounded forecasts and determination to build reserves, we believe that the district will maintain very strong reserves for the foreseeable future.

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 monitor all of them on a regular basis.

Highlights of the district's financial management policies and practices include the use of both historical data as well as consultations with a number of outside sources to develop financial forecasts, regular reporting to the board on both budget-to-actual performance and investment holdings, maintenance of detailed long-term financial and capital improvement plans, and adherence to a formal investment management policy. We note that the district's comprehensive five-year plan was tied to its previous bond issuance, in 2018, and is not a rolling plan, but management also maintains a limited 10-year plan with an associated 10-year debt schedule that identifies funding needs but not specific projects. The district has a formal policy to maintain 17.3% of expenditures across the operating funds, with an added directive to build reserves by 0.25 percentage point per year until cash flow borrowing is no longer necessary. The district does not maintain a formal debt management policy that goes beyond statutory limitations.

Debt

Overall net debt is low at 1.9% of market value and moderate at $3,110 per capita. Amortization is about average, with 46% of the district's direct debt scheduled to be retired within 10 years.

The district anticipates returning to voters in 2022 for bond authorization of $110 million to $150 million, to be issued over a three-year timeline, though we note that this would not likely materially affect its debt profile. Additionally, we do not believe that the district is party to any privately placed or direct purchase agreements that would pose a risk to its liquidity.

Pension and other postemployment benefit (OPEB) liabilities

- We do not consider pension and OPEB liabilities an immediate source of credit pressure for the district, given plan funding status and our view of the district's ability to absorb potential cost increases into its budget.
- The implicit subsidy arising from allowing retirees staying on the district's health plan while paying blended premium rates could result in higher OPEB costs, given claims volatility and medical cost and demographic trends, but, as with pensions, we expect the district to absorb these costs without pressuring operations in the medium term.

The district participated in the following multiple-employer, cost-sharing plans as of June 30, 2019:

- Missouri Public School Retirement System (PSRS): 90% funded with the proportionate share of the net pension liability at $191.5 million
- Public Education Employee Retirement System (PEERS): 86.4% with the proportionate share at $18.9 million
- The district additionally allows retirees to participate in its health insurance plans at their own cost. This creates an implicit subsidy for the district, as premiums are based on a blended rate for both active and retired employees.

Plan-level contributions for both PSRS and PEERS exceeded static funding, making some progress on reducing liabilities, but fell short of our minimum funding progress metric. Contribution rates are based on recommendations by plan actuaries but cannot increase by more than 1% for PSRS and 0.5% for PEERS in any giving year, 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), and we further believe the 7.5% rate-of-return assumption used for both plans could lead to contribution volatility.

St. Louis County Parkway School District C-2, Mo., Financial And Operating Statistics

	Characterization	Most recent	Historical information		
		2020	2020	2019	2018
Economic indicators					
Population				140,302	140,383
Median household EBI as % of U.S.	Very strong			145	147
Per capita EBI as % of U.S.	Very strong			159	160
MV per capita ($)	Extremely strong	165,442	165,442	150,306	149,809
Top 10 taxpayers as % of AV	Very diverse		3.7	4.1	5.0
Financial indicators					
Total adjusted available fund balance ($000)				41,372	40,131
Total adjusted available fund balance as % of operating expenditures	Very strong			17.5	17.1
Governmental funds cash as % of governmental funds expenditures				28.2	25.4
General fund operating result as % of general fund operating expenditures				0.82	0.89
FMA	Good				
Enrollment			17,526	17,613	17,599
Debt and long-term liabilities					
Overall net debt as % of MV	Low	1.9			
DS as % of governmental funds expenditures	Moderate			9.3	9.3
Required pension contribution ($000)				21,111	20,814
OPEB contribution ($000)				1,713	1,317
Required pension plus OPEB contribution as % of governmental funds expenditures				8.0	7.8

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

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

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