S&P Global
Ratings

Credit Research

Summary:

Greene County R-12 School District (Springfield), Missouri; Appropriations; General Obligation; School State Program

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Summary:

Greene County R-12 School District (Springfield), Missouri; Appropriations; General Obligation; School State Program

Credit Profile		
US$168.0 mil GO sch bldg bnds ser 2019 due 03/01/2039		
Long Term Rating	AA/Stable	New
Greene Cnty R-12 Sch Dist (Springfield) GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Greene Cnty R-12 Sch Dist (Springfield) GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Greene Cnty R-12 Sch Dist (Springfield) GO (Missouri Direct Deposit Prog)		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA/Stable	Affirmed
Greene Cnty R-12 Sch Dist (Springfield) lse part certs ser 2007		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Greene Cnty R-12 Sch Dist (Springfield) GO		
Underlying Rating for Credit Program	AA/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Current

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Greene County R-12 School District (Springfield), Mo.'s series 2019 general obligation (GO) school building bonds. At the same time, S&P Global Ratings affirmed its 'AA' underlying rating on the district's existing GO debt as well as its 'AA-' underlying rating (SPUR) on the district's outstanding lease certificates of participation (COPs). The outlook is stable.

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 2019 bond proceeds to purchase land as well as to construct, repair, renovate, improve, furnish, and equip school buildings.

Securing the COPs are lease rental payments made by the district as lessee. We rate these obligations one notch lower than the district's general creditworthiness to account for the appropriation risk associated with the lease payments. Our rating reflects the affordability and likelihood of the lease payments as well as our view of the district's general creditworthiness. In our opinion, the lease features and terms are standard with no unusual risks regarding timely payment of debt.

The district has maintained stable operations and strong cash reserves for the past several years, and we believe it will continue to do so for the foreseeable future. We believe this, in conjunction with the district's large tax base and diverse economy, are its primary credit strengths and offset against the area's below-average income indicators.

The rating further reflects our view of the district's:

- Strong and diverse local economy, with access to the Springfield Metropolitan Statistical area (MSA);
- Maintenance of strong general fund reserves, albeit on a cash basis; and
- Moderate overall net debt burden.

Partly offsetting the above strengths, in our opinion, are the district's below-average, albeit adequate, income indicators.

Economy

Greene County R-12 School District (Springfield) serves an estimated population of 215,045. Median household and per capita effective buying income in the district are adequate at 74% and 84% of national levels, respectively. At $71,341 per capita, the 2019 estimated market value totaling $15.3 billion is, in our opinion, strong. Assessed value (AV) has grown by 5.5% since 2017 to $3.6 billion. Roughly 4.1% of AV comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion.

The district is located in the southwest of the state, approximately 165 miles southeast of Kansas City and 200 miles southwest of St. Louis. It includes approximately 95% of Springfield and certain surrounding unincorporated areas within the county.

As the third-largest city in the state, Springfield serves as southwestern Missouri's retail and service center, and offers a diverse mix of industries within the local economy. In addition, the district's location provides residents with employment opportunities throughout the Springfield MSA, whose largest employers include CoxHealth Systems (11,669 employees), Mercy Hospital Springfield (10,950), Walmart & Sam's Club (5,372), and Springfield Public Schools (4,100). Given planned commercial developments in the area, as well as expansions at 3M, Bass Pro Shops, and O'Reilly Auto Parts, we believe that AV and employment will continue to trend positively in the district.

Enrollment came in at 24,696 students in 2018 and has been largely stable over the past several years. Based on a recent demographic study, officials project that enrollment will increase at a rate of roughly 3% over a span of 10 years. Although we believe that this is likely optimistic given the historical trend, we believe that enrollment should at least remain stable.

Finances

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.

The district's available cash reserve of $44.4 million (which consists of the combined general and special revenue funds) is strong on a cash basis of accounting, in our view, at 17% of the combined funds' expenditures at fiscal year-end (June 30) 2018. The district reported a surplus operating result of 0.4% of expenditures.

The district has maintained strong operations, posting surpluses in each of the past six audited years. For fiscal 2019, officials project that the district will post a roughly $1.3 million operating surplus, but that reserves as a percentage of expenditures will decline modestly as a result of increased spending. Given the district's historically strong finances, management's plans to fund capital costs with non-available reserves, and management's financial projections, we believe that the district will maintain strong reserves for the foreseeable future.

Management

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.

When creating the budget, management analyzes three years of historical revenue and expenditures and confers with external sources to formulate annual revenue and expenditure assumptions. Management also performs a three-year forecast that is updated and shared with the board annually. The board receives monthly reports on budget-to-actual performance and can amend the budget as needed. The district's formal policies for investment and debt management follow state guidelines, and management provides the board with monthly reports on investment earnings and holdings. The district's formal reserve policy states that the board shall strive to maintain an operating fund balance of at least 15%, but that the operating fund balance shall not be less than 10% at the close of the subsequent year. The board considers the fund balance the combined general and teachers' funds. The district also maintains a formal long-term capital improvement plan.

Debt

At 3.2% of market value and at $2,265 on a per capita basis, we consider overall net debt moderate. With 39% of the district's direct debt scheduled to be retired within 10 years, amortization is slow. The debt service carrying charge was 8.8% of total governmental fund expenditures excluding capital outlay, which we consider moderate, in fiscal 2018.

The district does not plan to issue additional debt within the next two years, and thus we do not anticipate that the district's debt burden will change materially in the interim. Additionally, we have verified that the district is not party to any direct purchase or privately placed obligations that we believe would pose a risk to its finances or liquidity.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $21.3 million, or 7.4% of total governmental expenditures, toward its pension obligations in fiscal 2018.

The district contributes to the Public School Retirement System of Missouri (84.1% funded) and the Public Education Employee Retirement System of Missouri (86.1%), both cost-sharing, multiple-employer defined benefit pension plans. It has been making its full required contributions to its pension plans, and although some of the plans' assumptions may be aggressive, we don't anticipate that required contributions will increase materially in the near term. The district does not report any liabilities associated with other postemployment benefits.

Outlook

The stable outlook on the underlying rating reflects our expectation that the district will maintain strong cash reserves upheld by comprehensive management practices and conservative budgeting. The stability of the local economy and participation in the Springfield MSA further support the rating. Therefore, we do not expect the rating to change within the two-year outlook horizon.

Upside scenario

If the district's key economic indicators improve significantly and cash reserves increase to a level commensurate with that of higher-rated peers , we could consider a higher rating.

Downside scenario

If the district significantly depletes its cash reserves to levels we no longer consider strong, we could lower the rating.