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Ratings

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Summary:

Jackson County Consolidated School District No.2 (Raytown), Missouri; General Obligation; School State Program

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Credit Profile		
US$15.105 mil GO sch bnds ser 2022 due 03/01/2041		
Long Term Rating	AA-/Stable	New
Jackson Cnty Cons Sch Dist #2 (Raytown) GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Jackson County Consolidated School District No. 2 (Raytown), Mo.'s approximately $15.1 million series 2022 general obligation school bonds. At the same time, we affirmed our 'AA-' underlying rating on the district's GO debt outstanding. The outlook is stable.

The series 2022 GO bonds are general obligations of the district secured by revenue from unlimited ad valorem property taxes. Bond proceeds will be used to finance a series of upgrades and improvements throughout the district.

Credit overview

The district is located about 10 miles outside of Kansas City and has experienced strong tax-base growth in recent years; however, its local income and wealth indicators remain weaker than its peers. Reserves are sizeable at more than $30 million, based on the draft fiscal 2021 audit, despite declining enrollment and enrollment-dependent state aid. The district plans to spend down some reserves during the next few years on programs and capital to bring its balance closer to its formal 15% to 20% reserve target. Given its large budget size, growing tax-base, and lack of additional debt plans, we anticipate rating stability during the two-year outlook horizon.

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

- Participation in the broader Kansas City Metropolitan Area with a large and growing, largely residential tax-base;
- Strong cash reserves bolstered by recent surpluses driven by expenditure cuts, operating tax increases, and conservative budgeting practices; and
- Manageable debt burden with no additional debt plans.

Environmental, social, and governance

The district is in an area susceptible to hailstorms and incurred hailstorm damage several years ago. However, it maintains insurance for environmental damage and as a result, the recent hailstorm did not have a material financial impact on the district. We consider its environmental, social, and governance risks in line with those of the sector.

Stable Outlook

Downside scenario

If the district develops a financial imbalance and spends down reserves materially, we could take negative rating action.

Upside scenario

If the district's economic and income metrics can grow to levels that are commensurate with its higher-rated peers while maintaining current reserve levels, we could take a positive rating action.

Credit Opinion

Stable, largely residential local economy with proximity to Kansas City

The district serves Raytown and portions of Independence, Lee's Summit, and Kansas City in the south-eastern Kansas City metropolitan area, about 10 miles from downtown Kansas City. The district is largely residential, and officials speak of new developments with hiking trails and housing projects. In addition, officials mentioned seeing development on Highway 350, which connects to Kansas City, with new gas stations and stores.

Assessed valuation (AV) trends have been positive overall, with a small decline in calendar 2020 and a large jump of 13% in 2019. Officials report that the decline was a result of protested taxes after the 2019 reassessment year. Since then, AV has increased again at about 8% year-over-year and the district anticipates continued growth as the county agreed to physical assessments going forward, which will likely reduce the number of tax appeals.

We anticipate the local economy will remain at least stable, with below average effective buying incomes but continued growth in its tax base.

For S&P Global Economics' latest forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude" published Nov. 29, 2021, on RatingsDirect.

Historically strong cash-based reserves with some spend downs planned

The district reports its finances under a modified-cash basis of accounting and June 30 fiscal year-end. We include both general and special revenue funds in our analysis of operating performance and flexibility. For fiscal 2020, the general fund consisted primarily of local sources (47%), followed by state sources (38%).

Funding for Missouri school districts is driven mostly by 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 look-back 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 has lost about 1,000 students in the past seven years, with a small rebound in the current year. Officials speculate that enrollment has been decreasing in part due to lower birth rates, an aging population, and some families enrolling in private schools in the area. Officials have been responding to the decline in enrollment and, in turn, enrollment dependent state-aid by reducing staff and programs.

After three consecutive deficits, the district posted a large surplus in 2020 and estimates a larger one in fiscal 2021. Despite ongoing enrollment declines, the district has posted large surpluses in recent years due to conservative budgeting, increases in property tax revenue from tax-base growth, a voter-approved levy transfer, and substantial staff cuts.

In response to declining enrollment, the district reduced about 70 positions during the past three years, which led to savings of $1.8 million during fiscal 2020. Furthermore, in April 2019, the district went to voters for approval of a transfer of 13 cents to the operating levy from its debt service levy. The district experienced a revenue shortfall of $1.3 million in fiscal 2020 due to state cuts during the last two months of the fiscal year; however, this was offset by receipt of $2 million in ESSER I funds, which were used primarily on secondary teacher salaries.

For fiscal 2022, the district anticipates receipt of approximately $8 million in ESSER II and ESSER III funds; however, is budgeting for a deficit of $1 million. The district plans to spend reserves somewhat during the next three years on programs and capital, to be more in line with its 15%-20% target. However, we anticipate reserves to remain at least strong on a modified-cash basis and nominally large.

Good financial management practices and policies

Highlights of financial management policies and practices include:

- Use of historical data, as well as consultations with a number of outside sources to develop budgetary forecasts;
- Monthly reporting to the board on budget-to-actual performance;
- Maintenance of a long-term financial plan, which is updated on an annual basis, that spans through fiscal 2025 with dynamic assumptions built-in;
- Maintenance of a long-term capital plan that spans through 2035 with uses of funds detailed through 2024 and sources of funds not identified for most items.
- Quarterly reporting to the finance committee on investment holdings and earnings and maintenance of a formal investment management policy; and
- Adherence to a formal reserve policy that identifies a minimum fund balance of 15% of expenditures.
- The district does not maintain a formal debt management policy.

Manageable debt burden with no near-term plans to issue additional debt

The current issuance was authorized by voters in April 2019, with voters authorizing $53 million in new funding for school projects as well as a tax increase. This represents the second and final issuance from that authorized amount. Officials indicate no additional debt plans during the next few years.

Officials state that they are not party to any direct purchase or privately placed bond issuances. We anticipate the district's debt burden will remain moderate and manageable for the foreseeable future.

Pension and other postemployment benefit liabilities

We do not consider pension and OPEB liabilities an immediate source of credit pressure, 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 to stay 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 will 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, 2020:

- Missouri Public School Retirement System (PSRS): 82% funded
- Public Education Employee Retirement System (PEERS): 84.1% funded
- 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.

The district's proportionate share of net pension liability for both plans is not available due to its use of modified-cash accounting. 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 1.0% for PSRS and 0.5% for PEERS in any giving year, leading to lower-than-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 (for which eight years have passed) and PEERS (for which seven years have passed), and we further believe the 7.5% rate-of-return assumption, well above our 6.0% guidance, used for both plans could lead to contribution volatility.

Jackson County Consolidated School District No. 2 (Raytown), Mo.: Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			59,145	59,475	59,118
Median household EBI % of U.S.	Adequate		84	86	88
Per capita EBI % of U.S.	Adequate		79	81	82
Market value ($000)		3,523,547	3,361,491	2,949,195	2,938,351
Market value per capita ($)	Strong	59,575	56,835	49,587	49,703
Top 10 taxpayers % of taxable value	Very diverse	5.8	6.9	7.7	7.8
Financial indicators					
Total available reserves ($000)			22,918	19,807	22,238
Available reserves % of operating expenditures	Strong		21.3	18.0	20.3
Total government cash % of governmental fund expenditures			21.0	19.5	24.5
Operating fund result % of expenditures			3.0	(2.2)	(2.7)
Financial Management Assessment	Good				
Enrollment		7,826	8,242	8,418	8,713
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	5.8			
Overall net debt per capita ($)	Moderate	3,438			
Debt service % of governmental fund noncapital expenditures	Moderate		9.6	15.5	15.5

Jackson County Consolidated School District No. 2 (Raytown), Mo.: Key Credit Metrics (cont.)					
	Characterization	**Most recent**	**Historical information**		
			2020	**2019**	**2018**
Direct debt 10-year amortization (%)	Slower than average	49	56	54	83
Required pension contribution % of governmental fund expenditures			6.2	6.7	7.0
OPEB actual contribution % of governmental fund expenditures					
Minimum funding progress, largest pension plan (%)			85.6	90.6	90.9

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

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of January 4, 2022)		
Jackson Cnty Cons Sch Dist #2 (Raytown) SCHSTPR		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed