S&P Global
Ratings

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Summary:

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

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Summary:

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Credit Profile		
US$27.6 mil GO sch bnds (missouri direct deposit prog) ser 2019A due 03/01/2039		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
US$11.105 mil taxable GO sch bnds (missouri direct deposit prog) ser 2019B due 03/01/2031		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating and 'AA-' underlying rating to Jackson County Consolidated School District No. 2 (Raytown), Mo.'s series 2019A and series 2019B general obligation bonds At the same time, we affirmed our 'AA-' underlying rating and 'AA+' program rating on the district's outstanding, program-backed general obligation (GO) bonds, as well as our 'A+' long-term rating and underlying rating (SPUR) on the district's outstanding COPs. The outlook is stable.

The 'AA+' long-term rating on the district's GO bonds reflects our view of the district's participation in the Missouri Direct Deposit of State Aid program administered by the Missouri Health and Educational Facilities Authority.

The bonds are secured by an unlimited-ad valorem tax levied on all taxable property within the district's geographical limits. The district's outstanding COPs represent interests in lease payments made by the district under what we consider standard lease agreements and are subject to annual appropriation. We rate this obligation one notch lower than the district's general creditworthiness (as reflected in the GO rating/ICR) to account for the appropriation risk associated with the lease payment.

Located in the Kansas City metropolitan area, officials state that the local economy is growing due to development around two major highways in the district. Although the district reported a deficit in 2018, the spenddown of reserves was planned because the board's mandate lowers the district fund balances between 15%-20%. At the same time, the district is adjusting staffing levels for the district. In conjunction with the bond issues passing, the district passed a tax rate increase, which we believe will provide the district additional budgetary flexibility to make its proposed changes. Our financial management assessment of the district is good, indicating that we feel that management has formalized several practices that will enable the district to remain structurally balanced after it spends down reserves to the board's desired level.

The rating reflects our view of the districts:

- Participation in the broader Kansas City Metropolitan Area,
- Strong reserves based on a modified cash basis of accounting,
- Good financial management practices

The points above are offset by the districts:

- Adequate median household effective buying income that is below the U.S. average
- Recent declining trend in enrollment, but expected to stabilize
- Moderate debt burden

The district expects to use the bond proceeds to renovate an elementary school, security projects and other capital needs.

Economy

Jackson County No. 2 (Raytown) Consolidated School District serves an estimated population of 58,887. The median household effective buying income in the district is 89% of the national average, and the per capita effective buying income in the district is 83% of the national average, both of which we consider adequate. The district's total $2.9 billion estimated market value in 2018 is adequate, in our view, at $49,898 per capita. Assessed value grew by a total of 5.4% since 2016 to $660.3 million in 2018. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 7.8% of assessed value.

The district serves Raytown and portions of Independence, Lee's Summit, and Kansas City in the eastern Kansas City metropolitan area. The largest local employers include Cerner Corp. employees), HCA Midwest Health System, St. Luke's Health System, and Ford Motor Co. In 2016, the unemployment rate was above both the state (4.5%) and national (4.9%) averages at 5.1%. Management projects that unemployment and AV will continue to improve in the near term, given its strategic location around highway 350. Officials discussed Raytown Live, a large development that is attracting commercial activity to the 350 corridor, as a growing development that is bringing additional activity to the district. In addition, officials mentioned seeing development on highway 40, which connects Blue Springs to Kansas City. Finally, officials mentioned that several retirement communities have been coming to the district, and although they are not bringing additional students, they have helped keep local businesses operating.

Officials are optimistic about AV growth in the area, especially given their conversations with the Jackson County Assessor. They are expecting AV to increase 9.5% in fiscal 2019, and for growth to continue in the future. Given the growth in the Kansas City MSA in recent years, we believe the district is well positioned to increase its tax base, barring a broader regional or national economic recession.

Enrollment is declining in the district, but officials expect a demographic study to find student count is levelled. Since fiscal 2017, the district has lost approximately 500 students, but officials state enrollment has generally fluctuated in cycles over the years.

Finances

The district's available cash reserve of $22.2 million (which consists of the combined general and special revenue funds) is strong on a cash basis of accounting in our view, at 20% of the combined funds' expenditures at fiscal year-end (June 30) 2018. The district reported a deficit operating result of 2.7% of expenditures in 2018.

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 reported a $2.9 million deficit in 2018, after budgeting for a deficit of greater than $5 million. Officials state that the board has set a target of 15%-20% of reserves. In order to achieve this goal, the district needed to spend down reserves in fiscal 2018 and plan to spend down an additional 3.8 million to get to approximately 18% of expenditures. At the same time, the district is analyzing its staff and right sizing. In fiscal 2018, the district eliminated 20 FTE as part of its plan to reduce FTE by 70. In addition, officials have identified an additional 20 FTE they want to eliminate by 2020. The reduction is tied to the district's enrollment decreases; although management expects enrollment to level out in the near term, it will analyze projected FTE reductions based on residency demographics.

In order to spend down reserves, the district is spending funds on one-time capital expenditures for construction, as well as increasing teacher salaries for existing staff to make them more competitive with neighboring districts.

In conjunction with the bond authorization, voters approved a tax rate increase that will raise revenues for the district. Officials estimate that the tax increase will increase revenue by approximately $4 million a year.

Overall, officials are dealing with a variety of moving pieces to achieve their goals. Added revenue from a growing AV and the tax rate increase will help the district manage staffing levels while meeting board goals, but we believe the district will have some challenges in determining the correct mix of staffing reductions, salary increases, and revenue projections.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating 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 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 detailed long-term financial plan, quarterly reporting to the finance committee on investment holdings and earnings, 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, and although it does utilize long-term capital improvement plans, it does not update them on a rolling basis.

Debt

At 5.8% of market value and $2,882 per capita (approximately 7.0% and 3,500 when overlapping appropriation debt is included), overall net debt is moderately high, in our view. Amortization is rapid, with 83% of the district's direct debt scheduled to be retired within 10 years. Despite rapid amortization, debt service carrying charges were only 7.5% of total governmental fund expenditures, excluding capital outlay in fiscal 2018, which we consider low.

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. Officials expect to issue the remaining $10 million by 2022. Officials state that they are not party to any direct purchase or privately placed bond issuances, although they have entered into some capital leases for transportation and communication equipment.

Pension and other postemployment benefit liabilities

In fiscal 2018, the district paid its full required contribution of $8.8 million, or 7% of total governmental expenditures, toward its pension obligations.

The district contributes to the Public School Retirement System of Missouri (84% funded) and the Public Education Employee Retirement System of Missouri (85.8% funded), both cost-sharing, multiple-employer, defined-benefit pension plans. In accordance with state statutes, the district pays no portion of retiree health care premiums, but allows its employees to stay on its health insurance plan after retirement and continue paying active premium rates.

Outlook

The outlook on the 'AA+' rating reflects our assessment of the strength of the direct deposit structure and moves in tandem with the state GO rating and outlook.

The stable outlook on the rating reflects our view that the district will be able to maintain reserves at the board mandated range of 15%-20%, due to the district's plans to right size staffing and the growing economy. Given the above, we do not expect to the change the rating during our two-year outlook window.

Downside scenario

If the district develops a financial imbalance and spends down below the board's target, we may lower the rating

Upside scenario

If the district's economic and income metrics can grow to levels commensurate with higher rated peers while maintaining current reserve levels and good financial management practices, we may raise the rating.

Ratings Detail (As Of May 3, 2019)		
Jackson Cnty Cons Sch Dist #2 (Raytown) certs of part		
Long Term Rating	A+/Stable	Affirmed
Jackson Cnty Cons Sch Dist #2 (Raytown) certs of part ser 2018A due 04/01/2030		
Long Term Rating	A+/Stable	Affirmed
Jackson Cnty Cons Sch Dist #2 (Raytown) certs of part ser 2018B due 04/01/2030		
Long Term Rating	A+/Stable	Affirmed

Ratings Detail (As Of May 3, 2019) (cont.)		
Jackson Cnty Cons Sch Dist #2 (Raytown) GO rfdg bnds (missouri direct dep prog)		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Jackson Cnty Cons Sch Dist #2 (Raytown) GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Jackson Cnty Cons Sch Dist #2 (Raytown) SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Jackson Cnty Cons Sch Dist #2 Raytown GO		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.