

January 17, 2012

Summary:

East Ouachita Parish School District, Louisiana; General Obligation

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Summary:

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Credit Profile		
US\$9.5 mil go sch bnds ser 2012 dtd 03/01/2012 due 03/01/2032		
<i>Long Term Rating</i>	AA-/Stable	New
East Ouachita Parish Sch Dist GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to East Ouachita Parish School District, La.'s series 2012 general obligation (GO) school bonds. Standard & Poor's also affirmed its 'AA-' long-term rating and underlying rating on the district's previously issued GO school building bonds. The outlook on all ratings is stable.

The ratings reflect our view of the district's:

- Direct access to Monroe, which serves as a regional economy centered on health care, utilities, and manufacturing;
- Good income levels; and
- Historically strong financial position of the school board.

Partly offsetting the above strengths is our view of the district's:

- Concentrated property tax base; and
- Increasing retirement and other postemployment benefit (OPEB) costs, which amounted to 25% of general fund expenses in fiscal 2011 and which are placing significant pressure on the school board's budget.

An unlimited ad valorem tax on all taxable property in the district secures the bonds. We understand that officials will use bond proceeds to improve and renovate facilities throughout the district.

East Ouachita Parish School District is located in Ouachita Parish in northeastern Louisiana. The parish school board covers all the territory of the parish except Monroe, which accounts for 33% of the parish population. The school board's jurisdiction is further divided into east and west districts. The west district contains much of the commercial activity occurring in Ouachita Parish, while the east district is largely agricultural and residential. Parishwide enrollment is roughly 19,500 for fiscal 2012; management projects enrollment to increase by roughly 300 students over the next three years. Beyond the next three years, officials project potential enrollment increases following the projected expansion of a major telecommunications company. The school board maintains 36 schools and employs about 1,325 teachers.

The district accounts for a small portion of the Ouachita Parish school system's population and property tax base. The district functions as a taxing district for the maintenance of facilities and capital project bond debt service. The

school board is responsible for the management and fiscal operations of all parish school taxing districts. The parish includes Monroe, which is the parish seat, and serves as northeast Louisiana's economic, service, and retail center.

Recent economic development includes the continued growth and expansion of CenturyLink (BB/Stable), a telecommunications company. Per an agreement with the state, CenturyLink has pledged to remain in the parish for at least 10 years and has created 250 jobs in 2011 and will create more than 11,500 jobs over the next five years. Officials believe the projected new jobs will provided a spark for a housing market that has slowed in recent years. The University of Louisiana at Monroe is a stabilizing economic anchor. Outside of the school board, other leading employers in the district include:

- Angus Chemical Co., a chemicals manufacturer (175 employees);
- Premier Products Inc., a maker of metal doors, frames, and molding (71);
- Poly Processing Co., a plastics and plastic producer (65); and
- Enervest Production Co., an oil and gas company (43).

We believe that wealth and income levels within the parishwide school system are good, with median household effective buying income levels on par with the national average. We believe that property tax base growth has been strong, as assessed value (AV) has increased by 49% from \$138 million in fiscal 2007 to \$206 million in fiscal 2012, or an estimated market value of \$1.9 billion. Market value per capita, as an indicator of wealth, was an adequate \$50,000, in our opinion. We view the district's tax base as concentrated, with the 10 leading property taxpayers accounting for 43% of AV, due to a strong oil, gas, and utility presence. The leading taxpayer is Boardwalk Pipeline Partners L.P. (BBB/Stable), an oil and gas company (12% of AV) and Entergy Services, an electric utility (11%).

In our opinion, Ouachita Parish School Board's financial position remains strong. As a result of higher-than-anticipated reserve levels, management has gradually reduced the fund balance since fiscal 2007 to its fund balance policy range of 10% to 15% of operating expenditures. At the end of fiscal 2011, the unreserved general fund balance totaled \$14.2 million, or 11% of expenditures, which we consider strong following a budgeted \$1.5 million drawdown due to a 30% increase in state retirement expenses. For fiscal 2012, management anticipates that its largest cost increase -- estimated at 17% -- will again be in retirement expenses.

Officials project ending fiscal 2012 with an unreserved general fund balance of roughly \$11 million. Officials report that they are committed to maintaining the fund balance within its targeted range and will transfer money from the operations and maintenance (O&M) sales tax fund, if they deem doing so necessary. Toward this effort, officials have implemented a hiring freeze for fiscal 2012 and will reduce costs through the attrition of roughly 130 positions annually. For fiscal 2013, officials project total expense reductions will be close to \$6.5 million. The O&M sales tax fund is available for the general operations of the school system, providing an additional source of liquidity, and had a \$16 million fund balance at the end of fiscal 2011. State aid (85% of total general fund revenues) and property taxes (11%) are the major revenue sources for the district.

We deem Ouachita Parish School Board's management practices "standard" under our Financial Management Assessment methodology. This indicates our view that the finance department maintains adequate policies in most, but not all, key areas.

Almost all employees of the school board are members of two statewide retirement systems provided defined benefits: the Teachers' Retirement System of Louisiana (TRSL) and the Louisiana School Employees' Retirement System (LSERS). Contributions are determined actuarially. In fiscal 2011, the school board contributed \$20.1

million to TRSL and \$2.74 million to LSERS, which represented its required contribution for the year. Health care benefits are offered to retirees, which the school board is paying on a pay-as-you-go basis. At the end of fiscal 2011, the school board's contributions totaled \$11.8 million. Because the plan is not being funded, the entire actuarial accrued liability of \$157.9 million was unfunded. The board's combined retirement and OPEB contribution was \$34.6 million, or a significant 25% of general fund expenses. Continued increases in retirement and OPEB costs have the potential to place continued pressure on the school board's budget. As previously mentioned, officials report that they are committed to maintaining reserves that are in line with policy levels.

In our opinion, the district's overall debt is moderate at 4.6% of market value. We consider amortization of debt as average, with 47% of the district's principal retired in 10 years. Fiscal 2011 debt service carrying charges are low at 6.4% of expenses. This issuance is the final installment under a \$19.3 million bond program approved by 60% of the voters in April 2011. Officials levy a 30-mill tax rate to support debt service payments on the bond program. Officials have no plans to issue bonds in the near term.

Outlook

The stable outlook reflects our anticipation that Ouachita Parish School Board will maintain reserves within its stated policy. The school board's steady enrollment growth should allow for continued healthy state support. In addition, the availability of \$16 million in the sales tax fund to supplement operational expenses and manage increased costs should provide the school board with significant flexibility, when combined with a demonstrated willingness to make cost reductions, to effectively manage rising retirement and OPEB costs. Standard & Poor's does view the continued potential for rising retirement and OPEB costs as a constraining credit factor that will continue to warrant direct budgetary adjustments by school officials. For these reasons, we do not anticipate changing the rating within the two-year parameter of the outlook.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of January 17, 2012)		
East Ouachita Parish Sch Dist GO		
Long Term Rating	AA-/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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