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Ratings

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Summary:

St. Tammany Parishwide School District No. 12, Louisiana; General Obligation

Primary Credit Analyst:
Alex Louie, Centennial + 1 (303) 721 4559; alex.louie@spglobal.com

Secondary Credit Analyst:
Joshua Travis, Farmers Branch + 1 (972) 367 3340; joshua.travis@spglobal.com

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Credit Profile		
St. Tammany Parish Wide Sch Dist #12 taxable GO rfdg bnds ser 2021A due 03/01/2028		
Long Term Rating	AA/Stable	Rating Assigned
St. Tammany Parish Wide Sch Dist #12 GO sch bnds due 03/01/2041		
Long Term Rating	AA/Stable	Rating Assigned

Rating Action

S&P Global Ratings assigned its 'AA' rating to St. Tammany Parishwide School District No. 12, La.'s series 2021, $15,000,000 million taxable general obligation (GO) school bonds and its 'AA' rating to the series 2021a taxable GO school refunding bonds ($11,755,000). At the same time, we affirmed our 'AA' rating on the district's outstanding GO debt. The outlook is stable.

The bonds are general obligations of the Issuer and are payable from unlimited ad valorem taxes on all taxable property within the boundaries of the district. Officials plan on using the proceeds from the school bonds for capital projects, and the series 2021A refunding bonds to refund the district's existing series 2015 debt.

Credit overview

The district features stable financial operations and solid economic metrics. Very strong reserves ensure that the district is able to respond to unexpected contingencies, and a low debt burden limits future obligations. Currently, the district's economic metrics, compared to higher rated peers nationally, limit the rating as well as elevated pension costs. Located just to the north of New Orleans, the district maintained stable operations despite the COVID-19 pandemic, as the local economic base is much less reliant on tourism than Orleans parish to the south. This is reflected in sales tax receipts which increased by 13.48% in 2020 compared to 2019. The district has posted surplus results since 2013, and given our good financial management assessment, we believe that management will be able to adjust to future contingencies.

The rating reflects our view of the district's:

- Average median household incomes and a diverse property tax base
- Very strong reserves, supported by strong historical financial performance
- Elevated pension and OPEB costs, partially offset by a low debt burden

Environmental, social, and governance factors

We have analyzed the district's social, and governance risks relative to its economy, management, financial measures, and debt-and-liability profile, and have determined that all are on par with our view of the sector standard. We consider the district's environmental risks higher than other peers due to its elevated exposure to hurricanes and flood related events given its location near the Gulf of Mexico.

Stable Outlook

Upside scenario

If the district's incomes and market value metrics can increase to levels commensurate with higher rated peers, we may raise the rating.

Downside scenario

If the district's materially spends down its reserves, or operations become structurally imbalanced with deficits over a sustained period of time, we may lower the rating.

Credit Opinion

Diverse economic base which participates in the broad and diverse New Orleans area MSA

North of Lake Pontchartrain in Louisiana, St. Tammany Parish is a diverse, growing economy where residents benefit from employment opportunities in the New Orleans MSA. Assessed values have grown rapidly in recent years, growing by 20% from fiscal 2017 to fiscal 2020. Management expects growth to continue projecting a $5 million-$6 million increase in property tax receipts ($139.4 million in fiscal 2020). Officials did not identify any significant commercial or industrial developments, but the parish continues to show residential growth, with a recent report from the parish showing 1,045 new residential permits from January 2020 to September 2020. COVID-19, like with many other municipalities, increased unemployment to 15.1% in April 2020, but officials report that sales taxes in 2020 were 13.84% higher than in fiscal 2019, indicating that residents continued to spend, likely in the parish as opposed to other areas in New Orleans. In addition, sales tax revenue from online sales likely contributed to the increase. Officials state they have seen an increase in job numbers, with the parish estimating job increases in the fall of 2020 after declines through the summer, likely in the hospitality and retail sectors.

Very strong reserves, supported by consistent surplus results

The district has reported surplus results since the fiscal 2013 audit, and this trend continued in fiscal 2020 despite the pandemic. A large portion of the surplus was distributed to capital projects funds, and officials allocated $6.6 million to the general fund, on $407 million in expenditures. The surplus is attributed to better-than-expected sales taxes, as well as expenditure savings when the district paused in person operations from March 2020 to May 2020.

For fiscal 2021, the district expects another surplus, albeit it slightly smaller at $2 million-$3 million dollars. Officials cited several factors in the surplus for 2021, including increased sales and property tax receipts, but lower state funding due to enrollment declines. As students returned to in-person education, the district increased expenditures for COVID-19 mitigation measures, but these expenditures were offset by federal assistance. Management attributes the enrollment decline to COVID-19 pandemic measures, but recently saw an increase of 200 students from October 2020 to February 2021.

In considering the district's reserves, we also include $20 million in committed fund balances in addition to the $101.45

million assigned for local priorities. Officials also state the district has $25 million in disaster and oil spill funds which they can use for any purpose. In the future, management has no plans to decrease fund balances.

Good management with policies in most areas that officials might not formalize or monitor on a regular basis

In developing its budgetary assumptions, management uses several years of historical data and consults with the St. Tammany Parish Assessor office and the St. Tammany Corp. for assessed value and economic development news, as well as an actuary for health insurance and other long-term liability assumptions. Budget amendments are performed as needed, and the district provides monthly budget-to-actual reports to the board. It has a formalized investment policy and provides monthly reports to the board. It also has an informal long-term financial plan that project out to fiscal 2023 and a capital improvement plan (CIP) that is developed every five to six years, with the current CIP developed for the $175 million voter bond program approved by voters on May 4, 2019. The district also has a formal reserve policy of maintaining a minimum of 15% of operating expenditures, with a goal to maintain at least 19%. It follows the state-mandated debt limitation of 35% of AV.

Manageable debt burden that we consider low, with $140 million in medium term debt plans

We consider the district's debt burden low ($405 million) at 1,551 per capita and at 1.4% of market value. Voters in the parish recently authorized $140 million in bonds for various capital projects, and officials plan on issuing the remaining $125 million, as needed through 2024. The district is scheduled to repay approximately $66 million by 2024, and we do not expect the additional issuance to materially change our view of the district's debt burden in the medium term.

The district disclosed a $1.72 million non-rated limited tax revenue bonds in late 2020 for school bus acquisition. We do not consider any of the default provisions unusual and there are no acceleration provisions. Given the size of this obligation compared to the district's fund balances, we do not view this obligation as a credit pressure.

High Pension and other postemployment benefit (OPEB) liabilities

- We consider pension and OPEB liabilities a long-term credit pressure for the district given the high costs as a percentage of the budget and low funded ratios, and
- OPEB benefits are paid on a pay as you go basis, exposing the district to claims volatility.

The district participates in the following plans:

- Teachers Retirement System of Louisiana, funded at 65.6% with a net pension liability of $455.9 million,
- Louisiana School Employees Retirement System funded at 69.7% with a net pension liability of $59.7 million,
- Louisiana State Employee's Retirement System, funded at 64.1% with a net pension liability of $2.2 million,
- Other Postemployment Benefits, unfunded with a liability of $431.8 million.

The Teachers Retirement System made full funding progress in the most recent year, with contributions exceeding our minimum funding progress metrics. While the plan amortizes its liability on a closed level dollar basis, the 30-year amortization period represents a deferral of costs. In addition, the plan's elevated discount rate (7.45%) could lead to contribution volatility.

LASERS did not meet our actual minimum funding progress calculation, but did meet our actual static funding calculation indicating that the plan is moving towards full funding, but slowly. In addition, the plan's elevated discount rate (7%) could lead to contribution volatility.

Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population				261,484	258,910
Median household EBI % of U.S.	Good			108	115
Per capita EBI % of U.S.	Good			102	112
Market value ($000)		29,298,908	27,017,036	26,366,004	25,789,980
Market value per capita ($)	Extremely strong	112,049	103,322	100,832	99,610
Top 10 taxpayers % of taxable value	Very diverse	6.7	6.9	7.0	7.3
Financial indicators					
Total available reserves ($000)			122,310	114,703	109,768
Available reserves % of operating expenditures	Very strong		30.0	28.1	26.8
Total government cash % of governmental fund expenditures			39.6	17.7	29.6
Operating fund result % of expenditures		3.0	1.6	1.2	0.8
Financial Management Assessment	Good				
Enrollment		37,478	38,678	38,314	37,368
Debt and long-term liabilities					
Overall net debt % of market value	Low	1.4	1.5	1.4	1.8
Overall net debt per capita ($)	Low	1,551	1,596	1,448	1,832
Debt service % of governmental fund noncapital expenditures	Low		6.4	6.1	6.1
Direct debt 10-year amortization (%)	Fairly Rapid	73	75	77	74
Required pension contribution % of governmental fund expenditures			12.5	12.9	12.3
OPEB actual contribution % of governmental fund expenditures			4.5	4.0	6.4
Minimum funding progress, largest pension plan (%)			101.9	107.1	103.3

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