S&P Global Ratings

RatingsDirect®

Summary:

St. Martin Parish School District, Louisiana; General Obligation

Primary Credit Analyst:
Stephen Doyle, Dallas (1) 214-765-5886; stephen.doyle@spglobal.com

Secondary Contact:
Coral Schoonejans, Centennial + 1 (303) 721-4948; coral.schoonejans@spglobal.com

Table Of Contents

Summary:

St. Martin Parish School District, Louisiana; General Obligation

Credit Profile		
US$12.25 mil GO sch bnds ser 2019 due 03/01/2039		
Long Term Rating	A+/Stable	New
St. Martin Parish Sch Dist GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to St. Martin Parish School District, La.'s series 2019 general obligation (GO) school bonds and affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the district's existing GO debt.

Revenue from an unlimited-ad valorem-tax pledge on all taxable property within the district secures the bonds.

Officials intend to use series 2019 bond proceeds to fund various capital projects districtwide.

The district's local property tax base continues to diversify away from its focus on oil-and-gas-sector activity, evidenced by continued improvement in the 10 leading taxpayer concentration. We continue to view available reserves as very strong despite potential pressure from decreasing enrollment and the resulting lost state funding. However, sales tax collections have been positive; they continue to outperform the budget, allowing management to maintain structural general fund balance and add modest amounts to reserves annually.

We continue to monitor funding for the two state pension plans in which the district participates, and we expect district pension plan contributions will likely remain relatively high as a percent of total governmental-fund expenditures. Combined with debt service carrying charges, the combined pension and other-postemployment-benefits (OPEB) cost has accounted for more than 20% of total governmental-funds expenditures.

The rating reflects our opinion of the district's:

- Access to Lafayette, a regional retail-trade and economic-service center;
- Historically very strong available reserves; and
- Moderate overall net debt per capita and as a percent of market value.

We believe somewhat offsetting factors are, what we consider, the district's:

- Adequate, but below-average, income;

- Limited immediate local economy, primarily supported by oil-and-gas industries; and
- High pension, OPEB, and debt-service costs compared with the budget.

Economy

The district serves a population estimate of 54,432. Median household and per capita effective buying incomes are adequate at 87% and 85%, respectively, of national levels. Market value totals $3.5 billion in fiscal 2019, which we consider strong at $64,309 per capita. Assessed value (AV) has decreased by 1.3% overall since fiscal 2017 to $385 million in fiscal 2019; in fiscal 2019, however, AV has increased slightly by 0.4%.

The local economy has historically depended heavily on the oil-and-gas sector. However, the parish has recently diversified with growth in the retail, service, and light-manufacturing sectors. Following AV reductions for leading taxpayers in fiscal years 2017 and 2018, taxpayer concentration continues to dwindle: The 10 leading taxpayers now account for 19% of AV, which is still diverse. Management primarily attributes the previous moderate tax base concentration to oil-and-gas-sector-related companies in the area. With relative oil price stability recently, further tax base declines should be modest, if they occur at all.

Officials report that the local economy remains stable and that they do not have any concerns for primary taxpayer or employer stability. Despite recent declines, officials are projecting enrollment will remain relatively steady. We recognize there have not been any major economic changes that resulted in decreased enrollment during the past three years; management attributes this to normal class-size fluctuations and charter- and private-school competition. To address this competition, the district is planning a marketing campaign to advertise its dual-credit offerings and potential virtual-class programs.

Finances

Louisiana uses the minimum-foundation program to calculate financial support for local school districts. The formula identifies education costs for children in each school district. Then the formula determines the share of this cost local school district taxpayers should support and the share the state will pay based on the district's sales and property tax wealth, as well as the level of tax effort the district exerts. Enrollment fluctuations can lead to revenue fluctuations. In school year 2018-2019, student enrollment is 7,861, down overall from 2015-2019.

Available fund balance of $25.4 million was very strong, in our view, at 40% of general fund expenditures at fiscal year-end June 30, 2018. The district reported surplus operating results of 2.1% of expenditures in fiscal 2018.

Continued sales-tax-collection growth, which is conservatively budgeted, led to positive general fund results for fiscal years 2017 and 2018. Due to recent enrollment decreases and the lag between enrollment fluctuations and resulting state funding changes, the district's state aid could decrease during the next few years. However, due to management's conservative budgeting and improving property and sales tax revenue, we think the district will likely maintain balanced operations and very strong reserves.

Officials expect to end fiscal 2020 with breakeven operations or a small surplus, maintaining historically very strong reserves. There are currently no plans to reduce general fund reserves intentionally. However, any future reductions in the oil-and-gas sector or unexpected enrollment decreases could pressure the budget.

In addition, Louisiana School Employees' Retirement System (LSERS) and Louisiana Teachers' Retirement System (LTRS) contributions will likely account for, at least, 13%-15% of total governmental expenditures due to the status of both plans' funding. State aid accounts for roughly 76% of general fund revenue while sales taxes generate 13% and property taxes generate about 9%.

Management

We consider the district's financial management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Key practices include management's:

- Use of historical trend analysis when developing revenue and expenditure assumptions,
- Ability to amend the budget as needed, and
- Monthly budget-to-actual and investment updates to the school board.

The district's formal general-fund-reserve policy calls for maintaining no less than 25% of expenditures. The district lacks formal long-term financial-planning and debt-management policies, but it follows strict state statutes governing debt issuance.

Debt

Overall net debt is moderate, in our opinion, at 5.8% of market value, or $3,521 per capita. Amortization is average, with 55% of direct debt scheduled to be retired within 10 years. Debt service carrying charges were 10.3% of total governmental-fund expenditures, excluding capital outlay, in fiscal 2018, which we consider moderate. The district does not currently have additional debt plans. While the district has previously issued privately placed debt in the form of its series 2012 GO bonds, there are no acceleration provisions or permissive covenants; rather, all debt is fixed and structured like the district's existing fixed-rate debt.

Pension and other-postemployment-benefit liabilities

In fiscal 2018, the district paid its full required contribution of $11.2 million, or 10% of total governmental expenditures, to its pension obligations. The district also contributed $4.1 million, or 3.8% of total governmental expenditures, to its OPEB obligations in fiscal 2018. The combined pension and OPEB carrying charge totaled 13.8% of total governmental-fund expenditures in fiscal 2018.

The district provides pension benefits through the state-administered LTRS and LSERS, both of which are cost-sharing, multiemployer, defined-benefit pension plans. The district's net pension liabilities for both plans totaled $88.78 million in June 2017. LSERS' and LTRS' fiduciary net positions were 74.44% and 68.2%, respectively, at June 30, 2017. The state approves actuarially determined contribution rates. Both plans' funded status will likely lead to increased district contributions. We expect officials to continue to incorporate these costs successfully into the annual budget. The district provides retiree-health-care benefits to eligible employees, which it funds through pay-as-you-go financing. Due to a relatively low pension-funding ratio for LTRS and continued pay-as-you-go OPEB funding, we expect annual fixed pension and OPEB costs will likely remain elevated.

Outlook

The stable outlook reflects S&P Global Ratings' opinion it will likely not change the rating during the two-year outlook period. The outlook also reflects our view that the district will likely maintain very strong finances, the local economy will likely continue to diversify, and relatively new industries will likely support further tax base growth during the next few years.

Upside scenario

We could raise the rating during the outlook period if the combined pension and debt profile were to improve materially, coupled with enrollment stabilization and income increasing to levels we consider good and in-line with higher-rated peers.

Downside scenario

We could lower the rating if reserves were to decrease significantly, whether it is due to increased operating, pension, and OPEB costs or decreasing taxable value.

Ratings Detail (As Of April 5, 2019)		
St Martin Parish Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
St. Martin Parish Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.