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Ratings

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Summary:

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

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

Credit Profile		
US$35.0 mil GO bnds ser 2023 due 03/01/2043		
Long Term Rating	AA/Stable	New
St. Tammany Parish Wide Sch Dist #12 taxable GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
St. Tammany Parish Wide Sch Dist #12 GO		
Long Term Rating	AA/Stable	Affirmed
St. Tammany Parish Wide Sch Dist #12 GO sch bnds ser 2022A due 03/01/2042		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to St. Tammany Parish Wide School District No. 12, La.'s anticipated $35 million series 2023 general obligation (GO) school bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the district's existing GO debt.
- The outlook is stable.

Security

The bonds are general obligations of the issuer, payable from an unlimited ad valorem tax, levied annually on all taxable property within the boundaries of the district. Officials will use the proceeds to pay for capital projects included in the district's capital improvement plan (CIP).

Credit overview

Located directly north of Lake Pontchartrain and the City of New Orleans, district residents benefit from employment opportunities in this major metropolitan statistical area (MSA). Assessed value (AV) growth remains stable and could accelerate in the 2024 reassessment year. With a tighter budget in fiscal 2023 due to expenditure pressures, management anticipates breakeven results. We expect financial performance will remain stable, given stability provided by very strong reserves, with more than $100 million available. Offsetting these credit strengths, the district's wealth and income metrics are lower than those of its higher-rated national peers, which, along with elevated pension costs, limit the rating.

The rating reflects our view of the district's:

- Diverse local economy experiencing stable growth due to its proximity to New Orleans MSA;
- Historically stable finances, which support maintenance of very strong reserves and flexibility to build up capital and disaster-relief reserve funds;

- Good financial management policies and practices under our Financial Management Assessment;
- Additional near-term issuance plans that are not expected to materially influence debt metrics; and
- Elevated pension and other postemployment benefits (OPEB) costs, although this is partially offset by its low debt burden.

Environmental, social, and governance

We consider the district's environmental risks to be higher than those of peers due to its location near the Gulf of Mexico, which exposes it to hurricanes and inland flooding. While Hurricane Ida caused relatively little damage to the district in 2021, we believe the area is under consistent threat from these types of physical risks. The district maintains a disaster reserve to finance immediate expenses following a severe weather event; the fiscal 2022 ending fund balance was $21.8 million. We believe the district's maintenance of a committed disaster reserve somewhat mitigates the financial implications of physical storm risk. We view the district's social and governance risk factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the district will maintain stable finances and very strong reserves during the two-year outlook period, driven by tax-base growth, strong sales tax revenue performance, and conservative budgeting practices.

Downside scenario

We could lower the rating if the district's finances become imbalanced, resulting in material and sustained draws on its very strong reserves, to levels below what we consider commensurate with those of similarly rated peers.

Upside scenario

All other credit factors remaining equal, we could consider a higher rating if economic expansion results in increased wealth and income metrics in the district, to levels that we view as comparable with those of higher-rated peers.

Credit Opinion

Large and diverse economic base, with access to the New Orleans MSA

Directly north of Lake Pontchartrain, St. Tammany Parish has a diverse, growing economy where residents benefit from the New Orleans MSA's employment opportunities. AV grew rapidly in recent years, as transportation, logistics, and corporate facilities in the area expand. The district expects about a 8% increase in AV in the 2024 reassessment year, a stronger growth rate than the approximately 3% average annual growth that the district reported during the past decade. Sales taxes, which comprise approximately 30% of the district's revenues, are up about $4.6 million year to date. District officials report continued strong sales tax performance in fiscal 2023, propelled by robust economic activity within the district, but are starting to see a slowdown in recent months.

History of stable finances supports maintenance of very strong reserves

The district has reported consecutive operating surpluses since 2013, with another surplus in fiscal 2022 of $9.8

million, or 2.2% of operating expenditures. The surplus is net of sizable transfers to other funds, which totaled $36.5 million.

Management indicates that fiscal 2023 is running tighter than usual, due to several factors mostly on the expenditures side, to include inflationary pressures. Most notably, the state required new textbook purchases that were not originally included in the budget. On the revenue side of the budget, the district is receiving less state funding due to growth in local revenue sources. At this point in the year, management anticipates breakeven results. As the nation faces recessionary pressure and reduced consumer spending, St. Tammany Parish could experience smaller surpluses, as the city's second largest revenue generator is sales tax. However, we expect at least balanced operations during the two-year outlook. (For our second-quarter 2023 economic outlook, see "Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect.)

Good financial management policies and procedures, including some long-term planning

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 AV 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 management provides monthly reports, including holdings and earnings, to the board. It also has an informal long-term financial plan that projects four years out from the current budget year, as well as a CIP that is developed every five-to-six years. The current CIP was developed for the $175 million bond program approved by voters in May 2019. The district also has a formal reserve policy to maintain a minimum of 15% of operating expenditures, with a goal of at least 19%. It follows the state-mandated debt limitation of 35% of AV.

Manageable, low debt burden, with plans to seek additional voter authorization next year

This issuance is the last portion of the voter authorization from 2019. Following the current issuance, the district plans to seek additional voter authorization in 2024 for approximately $200 million, which will be issued over the next five years. This is in line with historical practices of the district, which prefers to have to continuing funding sources to address continual capital needs. The district's existing debt amortizes rapidly, with 64% scheduled to be retired in the next 10 years, and more than $52 million scheduled to retire in the next two years. Therefore, we do not expect the additional planned issuances will materially change our view of the debt burden in the medium term.

High pension and OPEB liabilities

We consider pension and OPEB liabilities a long-term credit pressure for the district, given the high costs as a percent of the budget and low funded ratios for some of the plans.

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 (TRSL), funded at 72.4%, with a net pension liability of $469 million.
- Louisiana School Employees Retirement System (LSERS) funded at 76.3% with a net pension liability of $60 million.
- Louisiana State Employee's Retirement System (LASERS), funded at 64.1% with a net pension liability of $60

million.

- OPEB, unfunded with a liability of $365 million.

The TRSL made full funding progress in the most recent year, with contributions exceeding our minimum funding progress metrics, as of the June 30, 2021, measurement date. 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 (7.4%) could lead to contribution volatility.

LSERS also exceeded our actual minimum funding progress calculation. However, the plan's elevated discount rate (7%) could lead to contribution volatility.

St. Tammany Parish Wide School District No. 12, La.--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2022	2021	2020
Economic indicators					
Population				264,480	262,515
Median household EBI % of U.S.	Good			105.0	106.0
Per capita EBI % of U.S.	Good			103.0	102.0
Market value ($000)		22,735,127	21,962,745	21,645,209	19,420,773
Market value per capita ($)	Very strong	85,962	83,041	81,841	73,980
Top 10 taxpayers % of taxable value	Very diverse	6.6	6.3	6.7	6.9
Financial indicators					
Total available reserves ($000)			138,779	128,989	122,310
Available reserves % of operating expenditures	Very strong		32.0	30.5	30.0
Total government cash % of governmental fund expenditures			35.1	38.0	39.6
Operating fund result % of expenditures			2.3	1.5	1.6
Financial Management Assessment	Good				
Enrollment		36,005	37,151	36,572	38,678
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.4	2.4	1.8	2.1
Overall net debt per capita ($)	Moderate	2,039	2,000	1,490	1,589
Debt service % of governmental fund noncapital expenditures	Low		5.9	5.8	5.8
Direct debt 10-year amortization (%)	Fairly Rapid	64.0	73.0	78.0	75.0
Required pension contribution % of governmental fund expenditures			11.3	12.1	12.5
OPEB actual contribution % of governmental fund expenditures			3.3	3.9	4.5
Minimum funding progress, largest pension plan (%)			127.8	134.8	101.9

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

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 18, 2023)		
St. Tammany Parish Wide Sch Dist #12 GO		
Long Term Rating	AA/Stable	Affirmed
St. Tammany Parish Wide Sch Dist #12 GO sch bnds		
Long Term Rating	AA/Stable	Affirmed
St. Tammany Parish Wide Sch Dist #12 GO sch bnds due 03/01/2041		
Long Term Rating	AA/Stable	Affirmed
St. Tammany Parish Wide Sch Dist #12 GO sch bnds ser 2017 due 03/01/2037		
Long Term Rating	AA/Stable	Affirmed