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Summary:

Thomas County School District, Georgia; School State Program

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Summary:

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Credit Profile		
US$18.0 mil GO sales tax bnds ser 2021 due 03/01/2028		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Thomas Cnty Sch Dist GO sales tax bnds		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Thomas County School District, Ga.'s series 2021 general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'A+' underlying rating to the series 2021 bonds and affirmed its 'A+' underlying rating on the district's GO debt outstanding. The outlook is stable.

The district's full-faith-and-credit GO pledge secures the series 2021 bonds. The district plans to pay principal and interest on the bonds from a 1% special purpose local option sales tax for educational purposes (SPLOST). If this revenue is insufficient, the bonds are payable from an unlimited-ad valorem tax on all taxable property within the district. Proceeds of the 2021 bonds will finance renovations to two school facilities and an addition at another school, as well as address technology and transportation needs.

The long-term rating reflects our assessment of the district's eligibility for, and participation in, the Georgia State Aid Intercept Program. The program rating is one notch below our GO rating on Georgia (AAA/Stable), reflecting our view that:

- State aid appropriation risks are partially mitigated by strong state support for the program and consistent and well-established state aid funding;
- Maximum annual debt service coverage on all parity debt by state aid payments, currently 11.8x in 2028 and 4.0x for stressed semi-annual coverage (Mar. 1, 2028), will remain strong;
- The flow of state aid distributions and debt service payment dates result in a moderate assessment of timing and administrative risks.

Credit overview

The 'A+' underlying reflects our view of the district's strong finances, reflective of recurring positive operating results and maintenance of strong reserves. The rating also reflects stability in the local economy, which has experienced modest annual tax base growth, as well as steady enrollment in a per-pupil state funding environment. The district's debt is low on a per capita basis, as a percent of market value, and as a percent of expenses, and it all retires very rapidly given that debt is typically issued with a 5-year maturity schedule that coincides with SPLOST approvals. We view the district's pension and other postemployment benefits (OPEB) carrying charges as slightly elevated at 10.7% of total governmental fund expenditures in fiscal 2020, though this is consistent with all school districts in the state.

The rating further reflects our view of the following credit factors:

- Stable but limited local economy, with adequate income levels and very strong market value per capita;
- Stable enrollment which has resulted in steadily growing state aid funding over the past five years;
- Strong reserves with positive general fund operating results in each of the past three fiscal years;
- Standard management practices and policies under our financial management assessment (FMA), but proven effective budgeting with a demonstrated ability to weather economic cycles; and
- Manageable debt burden that retires rapidly, but slightly elevated pension and OPEB costs.

Environmental, social, and governance factors

We analyzed the district's environmental, social and governance risks relative to its economy, management, financial measures, and debt and liability profile and determined that they are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating if the district's economic metrics improve to levels we consider comparable to higher-rated peers, and if additional management policies are formalized and implemented.

Downside scenario

We could lower the rating if the district experiences financial pressure that leads to budgetary imbalance or material declines in reserves.

Stable but limited rural local economy

Thomas County School District is in southern Georgia, approximately 35 miles north of Tallahassee, Florida. The county's gross tax digest grew 5% over the past 5 years, indicating a stable local tax base, that is anchored by conservation (47.5%), forest (28.3%), and agricultural (12.7%) land use. Thomas County School District serves the entire population of the county, except for the City of Thomasville, which has its own independent school district. The SPLOST revenues are levied and collected at the county level, and then distributed to the school districts on a proportionate per-pupil basis. Thomas County School District consistently receives approximately two-thirds of the SPLOST revenues, while Thomasville City School District received one-third.

The district currently operates three elementary schools, one middle school, and two high schools. Enrollment has remained essentially flat over the past five years, increasing minimally from 5,847 in 2017 to 5,853 in 2021. With the onset of the COVID-19 pandemic, the district's facilities were closed in March 2020 through the end of the 2020 school year, with staff and students transitioning to fully remote learning. The district's students already had laptop devices for virtual learning, facilitating ease of transition, and the district's enrollment did not decline through the pandemic. For the current school year, the start of school was delayed by four weeks, and all students were given the option to attend fully in-person, remotely with district teachers, or virtually with GA virtual school providers. For the fall 2020 semester, approximately 70% of students chose the in-person option and 30% chose remote or virtual. That portion has shifted over time, and now management estimates that 90% of students have returned to fully in-person learning, with 10% remaining remote or virtual.

Strong finances, with recurring positive operating results and strong reserves

Management budgets conservatively, with actual results typically outperforming budget estimates, resulting in consistently positive operations and strong reserves. The district posted surpluses of $253,000 to $1.6 million (or 0.4% to 2.3% of expenditures) in fiscal years 2018 through 2020, and maintained available fund balances of $8.3 million to $10.3 million, amounts equal to 13% to 15% of general fund expenditures. With a surplus projected for fiscal 2021, we expect reserves to remain strong and in compliance with formal reserve policy targets (5% to 15% of expenditures). When school facilities were closed during the last quarter of fiscal 2020, the district experienced some cost savings related to transportation, utility, and substitute teaching services that were not needed during that timeframe. In addition, the district received $1.1 million of CARES Act funding in fiscal 2020, but only spent a small portion of it within fiscal 2020, mostly for Wi-Fi provision and technology equipment. The district's general fund budget is primarily composed of state aid (64%) and property taxes (21%).

Qualified Basic Education (QBE) program funding is the primary funding mechanism for K-12 education in Georgia and is driven by enrollment. Following the Great Recession, the state implemented several years of state aid reductions for school districts, commonly referred to as austerity cuts. Fiscal years 2019 and 2020 were the first years the QBE was fully funded, but as a result of uncertainty surrounding the COVID-19-induced recession, the state's 2021 budget included a 10% QBE reduction to all districts. However, tax revenues performed better than initially expected in fiscal 2021, and the state was able to restore 60% of the 2021 cut. For the district, the 10% cut was approximately $3.7 million, and $2.2 million of it was restored, leaving the district with a net reduction of $1.5 million. Further, management reports that receipt of federal COVID-relief funding helped to offset the state aid reduction.

The district is currently projecting a $1.5 million to $2.0 million surplus for the fiscal year ending June 30, 2021. The district received $4.1 million of ESSER II funding in fiscal 2021 and has spent $1.8 million of it so far for technology improvements (mainly refreshing student laptops). The district also spent approximately $1.0 million of the CARES funding received in fiscal 2020 in fiscal 2021 for expenses related to remote teaching. The district anticipates receiving $9.1 million from the American Rescue Plan (ARP). Management plans to spend 20% of that ($1.8 million) in fiscal 2021 to address learning losses via strong summer school programs and after school tutoring. The remainder of the ARP funding will be allocated in fiscal 2022 and 2023. With a surplus projected for fiscal 2021, and proactive planning for use of federal relief funding, we expect budgetary performance and reserves to remain strong throughout the outlook period.

Standard management policies and practices, with regular budget monitoring, reserve targets, and SPLOST-related capital planning

The district evaluates data and trends, as well as enrollment and tax base projections, when developing revenue and expenditure estimates for budgeting purposes. The budget can be amended as needed throughout the fiscal year, and budget performance is regularly monitored, with monthly budget-to-actual reports provided to the board. The district's formal reserve policy requires available fund balance of at least 5% to 15% of expenditures. The district consistently meets that reserve target, with available fund balances ranging from 13% to 15% of expenditures in each of the past three audited fiscal years. The district's 5-year facility plan is updated upon approval of a new SPLOST, which typically occurs once every five years, and outlines the projects that will be financed with SPLOST revenues. The district does not currently have a formal debt management policy (though issuance is limited to GO bonds corresponding to the SPLOST approvals) or a long-term financial plan that includes multi-year revenue and expenditure projections.

Low debt that retires rapidly, with somewhat elevated pension and OPEB costs

Including issuance of the 2021 bonds, the district's debt is considered low as a percent of market value, on a per capita basis, and as a percent of total expenditures. We consider amortization very rapid, as all outstanding principal retires within ten years. The district does not have any privately placed debt or variable rate debt and has no plans to issue additional debt within the next two years. Future issuances will likely correspond with future SPLOST approvals, which typically occur once every five years.

Pension and other post-employment benefits (OPEB)

We consider the district's pension and OPEB costs to be elevated, though manageable, given that they represent 10.7% of total governmental expenditures for fiscal 2020. The district's largest pension plan, the Georgia Teachers' Retirement System (TRS), uses a discount rate of 7.25%, which may be a risk of cost escalation due to market volatility.

Thomas County School District participates in the following plans as of June 30, 2020:

- Teacher Retirement System of Georgia (TRS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the state, with a funded ratio of 77.0% and a net pension liability of $63.5 million.
- Georgia School Personnel Postemployment Health Benefit Fund, a cost-sharing, multiple-employer, defined-benefit postemployment health care plan, which is funded on a pay-as-you-go basis, with a net OPEB liability of $54.7 million.

Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population				26,415	26,747
Median household EBI % of U.S.	Adequate			79	78
Per capita EBI % of U.S.	Adequate			78	74
Market value ($000)		2,812,156	2,789,253	2,757,358	2,720,306
Market value per capita ($)	Extremely strong	106,461	105,594	104,386	101,705
Top 10 taxpayers % of taxable value	Diverse		7.8	7.5	7.6
Financial indicators					
Total available reserves ($000)			10,314	9,098	8,280
Available reserves % of operating expenditures	Strong		14.8	13.8	13.1
Total government cash % of governmental fund expenditures			21.9	25.9	25.1
Operating fund result % of expenditures			2.3	1.3	0.4

Key Credit Metrics (cont.)

	Characterization	Most recent	Historical information		
			2020	**2019**	**2018**
Financial Management Assessment	Standard				
Enrollment		5,853	5,832	5,835	5,835
Debt and long-term liabilities					
Overall net debt % of market value	Low	0.8	0.3	0.4	0.5
Overall net debt per capita ($)	Very Low	861	338	450	556
Debt service % of governmental fund noncapital expenditures	Low		4.6	4.9	4.9
Direct debt 10-year amortization (%)	Rapid	100	100	100	100
Required pension contribution % of governmental fund expenditures			9.1	9.2	7.2
OPEB actual contribution % of governmental fund expenditures			1.6	2.7	2.6
Minimum funding progress, largest pension plan (%)			89.8	91.7	81.3

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

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020