

RatingsDirect®

Summary:

Thomas County School District, Georgia; School State Program

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Credit Profile

Thomas Cnty Sch Dist GO sales tax bnds	AA+/Stable	Affirmed
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' program rating and 'A+' underlying rating for credit program, with a stable outlook, on Thomas County School District, Ga.'s general obligation (GO) debt.

The program rating reflects our opinion of the district's:

- Participation in the Georgia State Aid Intercept program,
- Maintenance of at least 2x state aid maximum annual debt service (MADS) coverage, and
- Additional bonds test that requires at least 2x state aid MADS coverage for all outstanding and subsequent bonds issued under the program.

The underlying rating reflects our opinion of the district's:

- Maintenance of good finances, and
- Low debt with rapid principal amortization.

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

- Limited local economy, and
- Increasing cost pressure related to pension and health care.

The district's unlimited ad valorem tax pledge secures the bonds. The bonds are payable first from an electorate-approved 1% special-purpose local-option sales tax (SPLOST). The tax took effect in July 2012, and the district will levy the tax for five years. To the extent SPLOST proceeds are insufficient, the bonds' full principal and interest are payable from an ad valorem tax pledge, unlimited as to rate or amount. We currently view the unlimited GO pledge as the stronger of the two securities.

The district, with a population estimate of 26,194, is coterminous with Thomas County, which encompasses 520 square miles about 55 miles south of Albany and 35 miles north of Tallahassee, Fla. The local economy centers on health care, government, and manufacturing; it also has an agricultural component. Archbold Memorial Hospital (1,784 employees) is the leading private employer in the county, followed by several other manufacturers. The largely rural county's land use is 80% agricultural or conservation. County unemployment has recently been higher than state and national levels; in 2014, county unemployment was 8.6%. In our opinion, median household and per capita effective

buying incomes are an adequate 68% and a slightly higher 70%, respectively, of national averages. Student enrollment grew by roughly 6% since 2011 to 5,652 in 2014. Management, however, reports enrollment will likely remain largely stable over the next few years.

The county's gross digest has begun to rebound, albeit modestly, since a recent low in fiscal 2013. Reflecting the real estate downturn, the digest decreased to \$789 million in fiscal 2013 from \$1.16 billion in fiscal 2010. For fiscal 2015, the digest totals \$800 million. School officials expect an additional moderate tax digest over the next few years, but they note growth has been slow. The most recent estimated actual tax base value is \$2.67 billion in fiscal 2015, which equals, what we consider, an extremely strong \$101,577 per capita. The district's tax base is diverse with the 10 leading taxpayers accounting for 7.3% of assessed value.

In our opinion, finances are strong. Officials reported available reserves equaled 12.6% of expenditures at fiscal year-end 2014. The district has improved finances recently due largely to a reduction in state aid austerity cuts and a rebound in property taxes since the tax digest has begun to bounce back following the national recession. Fiscal 2014 ended with a surplus of \$2.47 million in the general fund due largely to a reimbursement from the state for money in lieu of taxes on preserved lands; this revenue stream, which includes amounts not paid in fiscal years 2012-2014, is not in the budget due to uncertainty surrounding the timing of receipts. Title ad valorem taxes were favorable for fiscal 2014 due to the roughly 4% increase in available reserves. State aid accounted for 56% of general fund revenue in fiscal 2014 and property taxes generated 27%.

The fiscal 2015 budget of \$40.4 million includes no millage increase and the use of approximately \$78,000 of general fund balance before transfers. School officials report budget-to-actual performance is currently favorable, and they expect a small surplus at fiscal year-end 2015 due largely to favorable revenue variances with state funding coming in overbudget. State funding continues to improve as district enrollment continues to increase and the state reduces austerity reductions that have been in place for years. We expect reserves to remain, in our view, strong once the district receives final fiscal 2015 figures since the combination of a growing tax digest and increasing state revenue has resulted in the return to fiscal balance; we believe management will likely continue to make the necessary budget adjustments.

For fiscal 2016, management expects to maintain the current operations-and-maintenance millage of 14.71 mills, well under the state's 20-mill limit. Management cites minimal property tax growth, increasing health care costs, and increasing pension contributions as the major financial pressures for fiscal 2016.

Standard & Poor's considers the district's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Management provides monthly reports to the school board on finances, and the board can amend the budget as needed. The district completes a state-mandated five-year facilities plan that does not identify funding sources, and management does not update the plan regularly. Management has adopted a formal reserve policy that calls for the maintenance of a reserve minimum at 5% of expenditures, as well as a maximum of 15%. The reserve policy addresses liquidity needs and complies with state guidelines. The district lacks a formal debt policy, and it does not prepare long-term financial forecasts.

In our opinion, debt is low at \$818 per capita, or less than 1% of market value. We consider principal debt amortization rapid with officials planning to retire 100% over the next 10 years. Carrying charges, which have historically been low, equaled 7.8% of expenditures in fiscal 2014.

The district makes annual contributions to the Georgia Teachers' Retirement System and the Georgia Retiree Health Benefits Fund, which have historically equaled 100% of the annual required contributions. For fiscal 2014, the combined cost equaled 14.3% of expenditures, a percent that continues to increase each year; this remains a cost pressure facing the district annually.

Outlook

The stable outlook on the program rating reflects Standard & Poor's assessment of the strength of Georgia's state aid intercept structure and the additional security provided by bond resolution enhancements. The stable outlook on the underlying rating reflects our opinion of the district's strong finances and recent record of proactive budget management in the face of revenue pressure. We believe the district's current operations-and-maintenance millage levy of 14.71 mills, which allows for operating flexibility under the state's 20-mill cap, provides additional rating stability. Therefore, we do not expect to change the rating over the next two years. If management were to sustain reserves at a level we consider strong, coupled with improvement in economic ratios, particularly income and unemployment, we could raise the rating. If financial performance were to deteriorate, resulting in a significant decrease in reserves, however, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011

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