S&P Global
Ratings

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Summary:

Clackamas County School District No. 46 (Oregon Trail), Oregon; School State Program

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Credit Profile		
US$71.575 mil go rfdg bnds ser 2017 due 06/15/2032		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Clackamas Cnty Sch Dist #46 (Oregon Trail) SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Upgraded

Rationale

S&P Global Ratings raised its underlying rating to 'AA-' from 'A+' on Clackamas County School District No. 46 (Oregon Trail), Ore.'s outstanding general obligation (GO) bonds. S&P Global Ratings also assigned its 'AA+' long-term rating and 'AA-' underlying rating to the district's series 2017 GO refunding bonds. The outlook is stable.

The rating action reflects our view of the district's demonstrated budgetary discipline, evidenced by its sustained and very strong reserves during different stages of the state funding cycle. We think the district will likely maintain its available financial position in line with management's informal goal of at least two months' expenditures, even as it enters a more difficult budgetary period.

The 'AA+' long-term rating reflects our view of the district's participation in the Oregon School Bond Guaranty Program and is equivalent to the state's GO rating.

The 'AA-' underlying rating reflects our view of the district's full faith and credit obligation, including the obligation to levy ad valorem property taxes without limitation as to rate or amount.

Proceeds from the sale of the series 2017 will be used to advance refund a portion of the district's series 2009 GO bonds to achieve interest expense savings. The district's underwriter's latest estimate provided to us shows a net present value savings of 9.6% as a result of the refunded bonds.

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

- Participation in the diverse Portland economy, coupled with extremely strong wealth levels;
- Record of maintaining very strong available fund balance, which we expect will continue; and
- Gradually growing average daily membership (ADM), the primary revenue driver of state funding.

Partly offsetting the foregoing strengths is our view of the district's moderate debt and slow amortization schedule.

Economy

Clackamas County School District No. 46 (Oregon Trail) serves an estimated population of 30,265. In our opinion, median household effective buying income (EBI) is strong at 113% of the national level, but per capita EBI is good at 98%. The district's total $4.6 billion real market value in 2017 is extremely strong, in our view, at $151,019 per capita. From 2016 to 2017, real market value increased by 9% to $4.6 billion. Roughly 5% of assessed value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

Stretching from the exurban Portland metropolitan cities of Sandy and Boring to Mt. Hood, the district's service area is experiencing strong property value growth, with the 2017 increase just slightly slower than the 10% increases in fiscals 2015 and 2016. Consistent with our projection of 2%-3% real GDP growth for U.S. Pacific states through 2019 and robust growth in the Portland region generally, we anticipate market value will continue to increase during the next two fiscal years, albeit at a likely more moderate pace.

Finances

The state's basic general education revenue funding, which is determined by weighted average daily membership (ADMw), drives operating revenue for Oregon schools under the state funding system. As a result, increases or decreases in enrollment can lead to increases or decreases, respectively, in revenue. ADMw totaled 5,078 students in 2017.

The district's enrollment bottomed out in 2009 and has been growing at the high end of the district's 2012 demographic projection, although we consider growth to be moderate overall, at 1.6% during the past five years. We understand that housing development in the district is constrained by the district being largely outside the regional urban growth boundary, but believe its affordability relative to communities in eastern Multnomah and Clackamas counties position the district to continue to experience student population growth in the medium term. Included in the district's ADMw and enrollment figures is a charter school with an international baccalaureate curriculum and Mandarin instruction.

The district's available fund balance of $7.5 million is very strong in our view, at 20% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a surplus operating result of 3.3% of expenditures in 2016.

The district's financial position has been creeping upwards relative to expenditures in recent years, from 14% of expenditures in the first year (2011) of its use of Government Accounting Standards Board 54 guidelines, and its current budget and projections suggest a gradual draw to 18% of expenditures through 2019. Management said the gradual increase partially reflects a practice of conservative expenditure assumptions, particularly in the area of health benefit costs and a long-standing practice of including a contingency equal to about 1% of expenditures. Based on our discussion with management, we think the district is unlikely to increase reserves significantly higher because of the increased risk that Oregon Trail's fund balance will cause the district to make unsustainable formal or informal long-term spending commitments. Management also said the executive team is unlikely to recommend a budget that will cause the district's reserves to fall below 16% of expenditures, which is the Government Finance Officers Association's suggested minimum based on two months of expenditures. The district is preparing for a more difficult budgetary environment for the state's biennium ending fiscal 2019; we understand that under the governor's proposal, state funding would increase but below most districts' baseline costs, which includes pension contribution rates for the largest plan groups to 27% of payroll from 22% relative to the current biennium.

Management

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

Highlights of the district's policies and practices include its:

- The use of available external resources to predict state aid, a now aging external demographic study to forecast ADMw and internal trend analyses to estimate costs;
- Provision of monthly detailed budget-to-actuals reports to the board, although it is not accompanied by an analytical narrative;
- Lack of long-term financial forecasting beyond the biennium covered in the current budget cycle;
- Lack of annual updates to a capital plan of five-years or longer;
- Formal comprehensive internal investment policy and reporting of holdings to the board on a monthly basis;
- Lack of debt management policy; and
- Lack of minimum reserve policy.

Debt

At 2.7% of market value, we consider overall net debt as low, and at $4,069 on a per capita basis, we view it as moderate. Amortization is slower than average, with 41% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 13.5% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

Management indicates that the district is likely to review its borrowing needs as part of a reexamination of its capital needs towards the end of 2017, with a possible slate of improvements to an elementary school under consideration. Management has confirmed that the district has no private placement debt, which we find can represent a source of contingent liquidity risk.

Pension and other postemployment benefit liabilities

In fiscal 2016, the district paid $5.4 million toward its pension obligations, equal to 103% of the full required contribution. The district's full required pension contribution totaled 10.7% of total governmental expenditures. The district also contributed $91,000, or 0.2% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 10.8% of total governmental fund expenditures in 2016.

After a restructuring of its OPEB plan, the district's actuarially determined annual required contribution dropped by 81% from an already small base, and the district continues to contribute at about twice the required level. As of the most recent valuation date, June 30, 2016, the district's unfunded actuarial accrued OPEB liability was $556,000, down from $2.9 million at the end of fiscal 2014.

Outlook

The stable outlook on the 'AA+' long-term rating reflects that of the state.

The stable outlook on the 'AA-' underlying rating reflects our view that the district's economy and student population are likely to increase during the next two years, while a slowdown in state funding and higher pension contribution requirements will lead to a pause or modest reversal in the trend of strengthening reserves. At the same time, based on state-level legislative negotiations and our discussion with management, we don't expect the pressure to be severe and we anticipate that the district's reserves will remain at levels we consider very strong. We do not anticipate changing the rating during the two-year outlook horizon.

Upside scenario

We could raise the rating if the district formalized or strengthened multiple policies and practices, which we would evaluate under our financial management assessment criteria, and if income indicators significantly improved.

Downside scenario

We could lower the rating if the district significantly breaks with its pattern of largely balanced financial performance or draws on its fund balances substantially, causing available general fund reserves to decrease below management's informal minimum threshold.

Related Research

U.S. State And Local Government Credit Conditions Forecast, July 27, 2016