S&P Global
Ratings

RatingsDirect®

Summary:

Mason Public Schools, Michigan; School State Program

Primary Credit Analyst:
Taylor Budrow, Chicago + (312) 233-7082; taylor.budrow@spglobal.com

Secondary Contact:
Kathryn A Clayton, Chicago (1) 312-233-7023; kathryn.clayton@spglobal.com

Table Of Contents

Summary:

Mason Public Schools, Michigan; School State Program

Credit Profile		
US$34.205 mil 2018 sch bldg & site bnds ser I due 05/01/2047		
Long Term Rating	AA-/Positive	New
Underlying Rating for Credit Program	A+/Stable	New
Mason Pub Schs rfdg bnds (GO-unltd tax)		
Long Term Rating	AA-/Positive	Current
Underlying Rating for Credit Program	A+/Stable	Upgraded
Mason Pub Schs GO		
Underlying Rating for Credit Program	A+/Stable	Upgraded
Unenhanced Rating	AA-(SPUR)/Positive	Current

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its underlying rating to 'A+' from 'A' on Mason Public Schools, Mich.'s previously issued bonds. At the same time, S&P Global Ratings assigned its 'AA-' long-term program rating and 'A+' underlying rating to the district's series 2018 general obligation (GO) unlimited-tax school building and site bonds. The outlook on the underlying rating is stable, while the outlook on the long-term program rating is positive and reflects that on the state rating.

The rating action reflects our view of the district's positive operating performance and growth of available reserves to 12.7% in fiscal 2017 from 7.2% in fiscal 2014.

The 'AA-' long-term program rating reflects our view of the district's participation in the Michigan School Bond Qualification and Loan Program. The program provides school bonds with added security through a state aid withholding mechanism that has statutory provisions that we consider strong. Upon state approval, the agreement between the state and local school district for program participation is irrevocable as long as any eligible bonds are outstanding. The rating on obligations that have received enhancements under the program is on par with, and moves in tandem with, the state rating.

The 'A+' underlying rating reflects our view of the district's pledge of its full faith, credit, and resources and revenue from an unlimited ad valorem property tax to secure the bonds. The 2018 bonds are the first of three series to be issued that were approved by voters in November 2017. Bond proceeds will be used for various school buildings and facilities upgrade and improvement projects.

The 'A+' rating reflects our view of the district's:

- Access to the greater Lansing-East Lansing economy;
- Very strong wealth indicators;
- Stable enrollment, which is the primary determinant of state aid.

Partly offsetting the above strengths, in our view, are the district's income indicators and available reserves, which, while at levels that we consider good to strong, are not commensurate with those of higher-rated peers.

Economy

Mason Public Schools serves an estimated population of 19,627. In our opinion, median household effective buying income (EBI) is strong at 119% of the national level, but per capita EBI is good at 107%. The district's total $1.7 billion market value in 2018 is very strong, in our view, at $85,165 per capita. Taxable value has grown by 4.1% since 2016 to $692.9 million in 2018. The tax base is diverse, in our view, with the 10 largest taxpayers accounting for approximately 17.3% of taxable value.

The district encompasses approximately 107.3 square miles in Ingham County in the south central portion of Michigan's Lower Peninsula. The district includes the City of Mason and a portion of the City of Lansing. Residents benefit from the employment opportunities afforded by their participation in the greater Lansing-East Lansing economy. The district's taxable values have increased in recent years and management expects that slight-to-stable increases will continue as a result of ongoing development, including expansion of top employers, which we view as likely.

Finances

State aid funding, which is determined by enrollment, is the primary source of operating revenue for most Michigan school districts. Therefore, increases or decreases in enrollment can lead to corresponding movements in revenue. The district's enrollment has remained relatively stable in recent years, increasing slightly overall since 2014 to 3,160 students for the 2017-18 school year.

We expect that enrollment will remain at least stable over the next few years. We recognize that enrollment has benefitted from growth in the district's community, leading to overall stability. The district utilizes an outside consultant for enrollment projections and, despite realistic expectations for slight enrollment increases to continue, budgets for flat enrollment each year. The district participates in the Schools of Choice program and typically gains approximately 20 more students than it loses each year.

The district's available fund balance of $3.8 million is strong, in our view, at 12.7% of general fund expenditures at fiscal year-end (June 30) 2017. The district reported a surplus operating result of 4.5% of expenditures.

We expect that the district will maintain at least strong available reserves over the next two years. The district has a history of conservative revenue assumptions and reporting better-than-budgeted results. The district reported significant general fund surpluses in fiscal years 2016 and 2017 partly as a result of an increase in foundation allowances, savings achieved through attrition, and lower capital spending in anticipation of the bond issuance. In fiscal 2018, the district expects to add to its available fund balance partly as a result of conservative budgeting, which we view as likely. We recognize that the district has no plans to decrease its available balance over the next few years and that it conservatively expects to report at least balanced operations in fiscal 2019.

Management

We revised our view of the district's management practices to standard from good under our Financial Management Assessment (FMA) methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas. The revision reflects our understanding of the district's long-term capital planning.

Highlights include:

- Strong revenue and expenditure assumptions that incorporate three years of data as well as outside sources of information when forecasting trends;
- Monthly reporting of budget-to-actual results to the board and typical amendment of the budget three times per year with the ability to amend further as needed;
- Maintenance of long-term financial projections one year beyond the budgeted year, but nothing comprehensive and longer term;
- Maintenance of a one-mill sinking fund for capital needs, but lack of a formal and long-term capital plan that identifies funding sources and uses beyond the expected spending of bond proceeds;
- Formal investment policy that mirrors state guidelines with annual reporting to the board of investment holdings and earnings;
- The lack of a formal debt management policy (although the district adheres to state limits); and
- An informal target of maintaining reserves of at least 10% of operating expenditures as sufficient for cash-flow needs and as a budgetary cushion; the district is currently above that target.

Debt

Overall net debt is 3.8% of market value and $3,273 per capita, which we believe to be moderate. Amortization is slower than average, with 40% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 6.6% of total governmental fund expenditures excluding capital outlay, which we consider low, in fiscal 2017.

We understand that the district has no additional debt plans over the next two years and expects to issue the second and third series of approved bonds in 2021 and 2023. Management also confirms it has no contingent liquidity risks from financial instruments with payment provisions that change upon certain events.

Pension and other postemployment benefit liabilities

In fiscal 2017, the district paid its full required contribution of $4.6 million, or 13.3% of total governmental expenditures, toward its pension obligations. The district also paid $995,000, or 2.9% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 16.2% of total governmental fund expenditures in 2017. The district also received funds from the State of Michigan to help fund its Michigan Public Schools Employees Retirement System (MPSERS) unfunded actuarial accrued liability.

MPSERS is a cost-sharing, multi-employer pension plan administered by the state. Michigan statute establishes and may amend MPSERS benefit provisions. For our calculations, we consider the district's statutorily determined contribution its required pension contribution. Per Government Accounting Standards Board Statement No. 68, employers with benefits administered through cost-sharing, multi-employer pension plans such as MPSERS must report their proportionate share of the net pension liability.

The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 63.3% as of 2017. (The funding percentage has hovered around 60.0% the past few years.) The district's proportion of the net MPSERS liability as of the most recent actuarial valuation was $46.8 million. Its proportionate share of the net pension liability is based on statutorily required contributions in relation to all reporting units' statutorily required contributions for the measurement period.

Michigan recently enacted reforms for MPSERS that create greater incentives for employees to participate in a defined contribution plan, increase employee cost-sharing for a hybrid plan, and boost state aid to schools for pension funding to offset the increased cost. Therefore, we anticipate employer contributions should remain relatively stable over the next few years. However, we note that consistently low pension funded ratios could lead to an increase in contributions and potential budget stress.

Outlook

The positive outlook on the program rating reflects that on the state rating. The stable outlook on the underlying rating reflects our expectation that the district will maintain at least strong available reserves. Therefore, we do not expect to change the rating during the two-year outlook horizon.

Downside scenario

A lower rating is possible if the district significantly decreases its available fund balance as a result of decreases in enrollment or other budgetary pressures.

Upside scenario

If the district's available reserves were to increase on a sustained basis in conjunction with significant improvement in income indicators, we could raise the rating, assuming no deterioration in other rating factors.

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.