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Summary:

Johnson County Unified School District No. 229 (Blue Valley), Kansas; General Obligation

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Credit Profile

US\$61.835 mil GO sch bnds ser 2022-A due 10/01/2041

<i>Long Term Rating</i>	AA+/Stable	New
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Johnson Cnty Unif Sch Dist #229 (Blue Valley) GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Johnson County Unified School District No. 229 (Blue Valley), Kan.'s approximately \$61.8 million series 2022 general obligation (GO) school bonds. At the same time, S&P Global Ratings affirmed its 'AA+' underlying rating on the district's GO debt outstanding. The outlook is stable.

The district's unlimited ad valorem-tax pledge secures the bonds. Officials plan to use bond proceeds to finance a variety of districtwide improvements, including technology upgrades, flexible learning environments, safety upgrades, and school building upgrades.

Credit overview

The district is in northeastern Kansas, approximately 25 miles from Kansas City in one of the state's wealthiest and most economically diverse areas. Consequently, the district's economic metrics compare favorably with those of similarly rated peers in Kansas. With strong financial policies and practices, the district has demonstrated prudent financial performance despite a growing enrollment base and steady facility needs. The debt burden is elevated compared with peers nationally and the district's reliance on state will persist and continue to be a rating constraint for upward pressure. We consider that while annual debt service carrying charges are elevated, pension and other-postemployment benefits (OPEB) costs are minimal. Therefore, we do not anticipate changing the rating during our outlook horizon.

The rating reflects our opinion of the district's:

- Growing, diversified local economy, which has access to, and participation in, the Kansas City metropolitan statistical area (MSA);
- Extremely strong wealth and very strong income;
- Very strong reserves resulting from positive financial performance;
- Good financial management policies and practices under our Financial Management Assessment (FMA) methodology; and
- Elevated debt service carrying charges, coupled with future debt plans

Environmental, social, and governance

Blue Valley's environmental risk is in line with the sector, but we note that this area is prone to Tornados. Following a cyber incident in 2019, the district enhanced security protocols and IT trainings, all of which we believe are pertinent measures and in line with those of peers, therefore we do not view the district's governance risks to be elevated compared with peers. We also assessed the district's risks relative to the district's economy, management, financial measures, and debt and liability profile, and determined that these are what we consider standard for the sector.

Stable Outlook

Upside scenario

Assuming all other rating factors remain stable or improve, we could raise the rating if debt continues to decrease, particularly overall net debt per capita and debt service carrying charges, to levels that we consider more in line with those of higher-rated peers.

Downside scenario

We could lower the rating if financial performance deteriorates significantly, leading to material declines in available fund balance below, what we consider, strong levels.

Credit Opinion

Wealthy community outside Kansas City with strong economic metrics

The district serves southern Overland Park and Leawood, eastern Olathe, and portions of the unincorporated townships of Aubry and Oxford in Johnson County. The suburban district provides residents with access to the Kansas City MSA. Due to the district's desirable geographic area and quality of life, assessed value continues to grow, increasing by an average of about 5% annually since 2015. Ongoing commercial and residential development projects indicate growth is likely to continue during the next few years. With active commercial and residential developments and a record setting year for new permit issuances it is likely that the growth rate will increase.

Prior to the pandemic, the district had a steadily growing enrollment, but, similar to many school districts, enrollment dipped. Which managements notes was largely the result of lower grade levels and anticipating enrollment to surpass pre-pandemic levels again. In school year 2021-2022, student enrollment is 21,978, up from the previous year.

Historically strong financial performance with additional support of federal stimulus funds

The district operates under Kansas School Finance Law constraints, including breakeven financial operations because Kansas limits the reserves carried into the next year. A statewide school-equalization-funding law, passed in 1992, places restrictions on the amount of cash-based reserves districts can maintain in the general and supplemental general funds. The state, however, permits districts to transfer money into the capital outlay and special revenue funds at each fiscal year-end to finance special-education and other programs for the following year.

The fiscal 2021 budget, which was originally structured without federal stimulus funds, ended with a larger-than-expected surplus of approximately \$377,000 in the combined general, supplemental general, capital outlay, special education, and contingency reserve funds. In total, the district received approximately \$20.5 million in federal

stimulus funds related to the pandemic, of which it expects to extend the use of these funds through the 2022-2023 school year. The stimulus funds are largely being used to address learning loss and maintain teaching staff. Kansas school districts typically rely on state aid funding for most revenue. State aid accounted for approximately 68% of total revenue in fiscal 2021.

The available fund balance of \$26.6 million was strong, in our view, at 11.7% of the combined funds' expenditures at fiscal year-end June 30, 2021. The district also classified a combined \$50 million as restricted in the special education and capital outlay funds that, when combined with available fund balance, equaled 33% of those funds' expenditures for fiscal 2021, which we view as very strong.

The fiscal 2022 budget includes negotiated salary increases, certified staffing to maintain existing class size ratios and use of \$5.5 million in reserves from fiscal 2021. In fiscal years 2023 and 2024, the district plans to use the remaining federal stimulus funds to preserve pre-pandemic operating reserves, after which management intends to adjust operating budget. Due to historically positive financial performance, outside of planned capital spending, and prudent fiscal management, we posit management will likely maintain, what we consider, very strong available reserves.

Good financial policies and practices

Highlights include management's monthly budget reports to the finance committee. Revenue and expenditure assumptions are typically conservative with external sources used to assist enrollment. The school board reviews the adopted investment-management policy annually, and management provides the board with quarterly investment reports. The district updates its five-year capital improvement plan annually. Management performs multiyear planning to assist with identifying out-year expenditure pressure. The board's informal operating reserve target equals 6%-7% of contingency and operating reserves with cash ranging from \$12 million-\$14 million for the combined special-education and contingency-reserve fund balance based on cash-flow requirements.

Debt metrics in line with those of peers, with additional ongoing debt plans in the short term

This issuance is the last of the bond authorization from a bond election in January 2020 for \$187 million. The district's total direct debt outstanding is approximately \$398 million, with an additional \$288.7 million in overlapping debt. At 2.7% of market value, we consider overall net debt low, but we view overall net debt as high on a per capita basis at \$5,761 per capita. Amortization is fairly rapid with officials planning to retire 63% of direct debt in 10 years.

Management indicates that the district has an established practice of going to voters for authorization and issuing that debt across a few years and as the authorization ends, returning for voters for further authorization to address future needs. Therefore, the district intends to go to voters in early 2023 for approximately \$175 to \$200 million and plans to issue additional debt next year.

Pension and OPEB liabilities

We do not consider pension and OPEB obligations for the district a significant credit pressure, because it does not provide OPEB beyond the implicit subsidy associated with participation in the group health insurance plan. Contributions account for a small portion of the district's budget, with the pension expense in fiscal 2020 representing 5% of total governmental fund expenditures.

- The district provides pension benefits to eligible employees by contributing to the Kansas Public Employees'

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Retirement System (KPERs), a cost-sharing, multiple-employer, defined-benefit pension plan. The plan is 76% funded, with a \$252,702 net pension liability reported as of June 30, 2021.

- Contribution rates are actuarially determined, and the state contributes to the system on behalf of the district. We think KPERs' 7.25% discount rate could cause some contribution volatility.
- Kansas also requires the district to allow retirees and dependents to participate in the district's group-health-care plan until the retiree reaches 65 years old. The district contributes to this plan through pay-as-you-go financing. As of fiscal 2021, the district's KPERs OPEB plan liability totaled \$3 million.

Johnson County Unified School District No. 229 (Blue Valley), Kansas--Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population				132,707	130,901
Median household EBI % of U.S.	Very strong			170.0	171.0
Per capita EBI % of U.S.	Very strong			175.0	180.0
Market value (\$000)		25,563,837	24,738,188	23,518,625	22,349,072
Market value per capita (\$)	Extremely strong	192,634	186,412	177,222	170,733
Top 10 taxpayers % of taxable value	Very diverse	8.4	8.3	8.6	9.3
Financial indicators					
Total available reserves (\$000)			26,637	17,402	17,382
Available reserves % of operating expenditures	Strong		11.7	8.0	7.6
Total government cash % of governmental fund expenditures			64.6	83.9	61.6
Operating fund result % of expenditures			0.2	1.2	(5.6)
Financial Management Assessment	Good				
Enrollment			21,608	22,251	22,206
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.7	2.8	3.2	3.1
Overall net debt per capita (\$)	High	5,175	5,297	5,679	5,258
Debt service % of governmental fund noncapital expenditures	Elevated		19.7	22.8	22.8
Direct debt 10-year amortization (%)	Fairly Rapid	63.0	70.0	70.0	75.0
Required pension contribution % of governmental fund expenditures			5.4	5.8	2.8
OPEB actual contribution % of governmental fund expenditures			0.0	0.0	0.2
Minimum funding progress, largest pension plan (%)			98.4	93.0	104.6

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

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