Summary:

Tillamook County School District No. 56 (Neah-Kah-Nie), Oregon; School State Program

Credit Profile		
Tillamook Cnty Sch Dist No. 56 Neah-Kah-Nie GO rfdg bnds		
Long Term Rating	AA+/Stable	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' underlying rating for credit program on Tillamook County School District No. 56 (Neah-Kah-Nie), Ore.'s general obligation (GO) refunding bonds. The outlook is stable.

The rating reflects our opinion of the district's:

- Record of maintaining very strong available fund balances, which we expect will continue;
- A tax base that provides revenues in excess of the state's weighted average daily membership (ADMw)-based funding system; and
- Low-to-moderate debt burden.

Partly offsetting these strengths is economic concentration in agricultural and forest products, which we believe represents a potential source of revenue volatility, although a constitutional limit on assessed value growth to 3% per year excluding new construction in practice generally leads to the market value of a given parcel in the state exceeding assessed value during recessions.

The rating reflects the district's full-faith credit and resource pledge, including an obligation to levy ad valorem property taxes without limitation as to rate or amount.

The district (estimated population 7,700) is located on the Pacific Coast in northwestern Oregon and is focused on its largest population center, Rockaway Beach. The local economy centers on agriculture and forestry. Income levels in the district are mixed, in our view, with an adequate median household income at 83% of the national level and good per capita effective buying incomes at 94% of the national level. The district's market value declined by a cumulative 22% to $2.3 billion in fiscal 2013 from $3 billion in fiscal 2009, due, in part, to weak housing demand. However, in fiscal 2014, market value stabilized and has since grown by a cumulative 3% to $2.4 billion in 2015. This translates to $308,278 per capita, which we consider extremely strong and believe reflects, in part, the small population relative to the large land base associated with natural resources.

After remaining stable since 2009, the district's ADMw increased by 3.6% to 927 in fiscal 2014. Management projects ADMw to grow modestly in the coming years, driven by the replacement of smaller outgoing classes by larger incoming classes. Unlike most other districts in the state, the district receives local revenues in excess of what it would otherwise under the state funding system. For this reason, changes in operating revenues do not directly correlate with changes in the district's ADMw, which can lead to budgetary challenges if the trends are mismatched. Property taxes are the district's single largest revenue source, accounting for about 76% of general fund revenues, about 15% of which is state timber revenue. We view a decline in property tax revenues as unlikely in the medium term, as aggregate assessed value stands at 75% of market value. (Assessed value, which generally is limited to 3% annual growth, is generally lower than market value.)

In our view, the district's financial position is very strong. The district has maintained an available financial position above 50% of expenditures on a modified cash basis in recent years despite low to moderate losses in four of the past five audited fiscal years. State timber harvest declines have negatively affected revenues; however, growth in property tax revenues have generally offset these as assessed values have increased. The district posted a moderate operating deficit of 2.4% of expenditures in fiscal 2014 and an ending available general fund position of $5.4 million, which we consider very strong at 52.8% of expenditures.

Management indicates the district has recently benefited from lower contributions required by the state pension system and that timber industry activity has picked up, which could support related revenues. The district's fiscal 2015 actuals show a 9% surplus and an ending available general fund balance of $6.3 million, which we consider very strong at 61% of expenditures. The fiscal 2015 budgeted ending fund balance was $5 million. Management attributes this better-than-budgeted financial performance, in part, to cuts to transportation costs and energy savings from a mild winter. For fiscal 2016, the district has budgeted for balanced operations, and management expects the district to report balanced operations for the subsequent two fiscal years.

We consider the district's financial management practices "standard" under our Financial Management Assessment methodology, indicating our view that the finance department maintains adequate policies in some, but not all, key areas. We revised our assessment from "good" after a change in our view of the district's financial planning practices. Highlights of these practices include a budget process that uses trend analysis to build assumptions and monthly budget-to-actual reporting to the board. Management maintains a long-term financial plan that currently runs through the current and next three fiscal years, but it is not formally integrated into the budget process and is not accompanied by documentation of its analytical underpinnings. Capital decisions are guided by a 20-year plan that, in practice, has been updated every other year and reviewed annually but does not necessarily identify funding sources beyond the current and subsequent two years . The district has an internal investment policy that goes beyond state requirements, and management discloses holdings to the board on an annual basis. The district does not have a formal reserve policy, but management has stated that the district maintains $2.5 million to manage cash flow needs and separately about $4 million as a hedge against the risk of fluctuating timber revenues. (Together, these total approximately 60% of expenditures.) The district does not have a formal debt management policy.

The district's overall debt is moderate, in our opinion, at $3,100 per capita but low at 1% of market value. Management indicates that the district does not plan to issue additional debt for the foreseeable future. In 2015, the district issued $2.6 million in privately placed GO bonds to achieve interest expense savings by refunding its outstanding series 2004 and 2005 GO bonds. The bonds have terms that are similar to other GO bonds issued in the state, and we do not view the private placement as a contingent liability due to standard legal provisions that are consistent with our criteria.

The district and its employees participate in defined-benefit pension plans managed by the Oregon Public Employees' Retirement System. In 2014, the district's pension contribution was 8.9% of total governmental funds expenditures. Payments for otherpostemployment benefits, which consists of an implicit subsidy that the district funds on a pay-as-you-go basis, were modest, at 0.2% of total governmental fund expenditures in fiscal 2014.

Outlook

The stable outlook reflects our view that the district could continue to experience fluctuations in timber revenues but that the margin between assessed value and market value provides a measure of predictability in its much larger property tax revenue stream. Moreover, we believe that the district's substantial reserves provide ample time for the district to adjust to a loss in timber revenues or higher costs if its student population continues to rise.

Upside scenario

A strengthening in the district's economic profile and enhanced policies and practices as measured in our financial management assessment could lead us to raise the rating.

Downside scenario

We could lower the rating if the district makes a substantial draw on reserves, such as could occur with a major capital project, particularly if coupled with structurally imbalanced operations.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

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