S&P Global
Ratings

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Summary:

Riverview Community School District, Michigan; School State Program

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Credit Profile		
US$7.285 mil sch bldg and site bnds ser 2019 due 05/01/2033		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Riverview Comnty Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating and 'A+' underlying rating for credit program to Riverview Community School District (CSD), Mich.'s series 2019 unlimited-tax general obligation (GO) school building and site bonds. At the same time, we affirmed our 'A+' underlying rating on the district's outstanding unlimited-tax GO debt. The outlook on all the ratings is stable.

In our opinion, the district's creditworthiness continues to be supported by the stability of its local economy. In addition, its stable operations and strong reserves are key credit factors. We believe, however, that its high pension costs constrain the rating.

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

- Mature local economy with good incomes and strong market value per capita;
- Recent trend of general fund operating surpluses contributing to strong reserves;
- Historically stable enrollment, which is directly tied to state aid; and
- Low-to-moderate overall debt burden, coupled with rapid amortization.

We believe that the above strengths are offset by the district's high fixed costs associated with pension costs and prior years of budgetary shortfalls.

The underlying rating reflects our view of a pledge of the district's full-faith-credit-and-resources pledge and an agreement to levy ad valorem property taxes without limitation as to rate or amount secures the bonds.

We understand officials intend to use series 2019 bond proceeds to finance various capital improvement projects.

The 'AA' program rating reflects our view of the district's qualification for, and participation in, the Michigan State School Bond Loan Fund program. The program provides school bonds with added security from a state guarantee that has statutory provisions we consider strong. On 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 program rating is on par, and moves in tandem, with the state rating.

Economy

Riverview CSD, with an estimated population of 12,425, is in Wayne County, approximately 15 miles south of Detroit. It is primarily residential and built out, covers about six square miles, and serves the city of Riverview and a portion of Trenton. The leading district employers are: Rivergate Terrace (300 employees), the district itself (199), Riverview (106), and Ash Stevens (pharmaceuticals; 90).

At 93% and 91% of national averages, respectively, the district's median household and per capita effective buying incomes are good, in our view. The district's total $742.4 million market value in 2019 is strong, in our view, at $59,755 per capita. Taxable value (TV) grew by a total of 1.0% since 2017 to $322.8 million in 2019. The 10 largest taxpayers make up an estimated 8.0% of TV, which we consider very diverse.

We believe that the significant economic developments are limited given the mature local economy. Nonetheless, it has demonstrated constant and stable growth, which we believe is likely to continue.

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 increases or decreases, respectively, in revenue. Enrollment-based state aid accounted for more than 84% of general fund revenue in fiscal 2018. Enrollment increased slightly overall from 2015 to 2019, totaling 2,907 for 2019. It hopes to stabilize its enrollment given that it is at or near capacity.

Under the Schools of Choice program, the district can accept nonresident students, on average gaining more students than it loses each year as a result of open enrollment. Transfer students represent roughly 40% of the district's enrollment and consistent transfers have contributed to its relatively stable enrollment in recent years. While we view the significant number of transfer students as a benefit to the school district since enrollment is the primary determinant of state aid, we recognize that the transfer population could be pressured if alternative education opportunities were made available.

In our opinion, the district's financial position is stable and its general fund operated with consecutive operating surpluses over the past two audited years. Prior to fiscal 2017, its operations were structurally imbalanced, primarily due to multiyear labor contracts and cuts in state aid. The recent years of positive results, according to management, primarily reflected an additional $900,000 in revenues received from a countywide enhancement millage beginning in fiscal 2018. The district expects that it will continue to receive these revenues for the next three years.

The district reported a surplus operating result of $528,000 and $182,000 or 1.8% and 0.7%, expenditures, respectively in fiscal years 2018 and 2017. Therefore, its available fund balance increased to $2.7 million, or a strong, in our view, 9.3% of general fund expenditures at fiscal year-end (June 30) 2018.

For the fiscal 2018-2019 budget, the district is estimating a $425,000 use of fund balance. As a result of an early retirement program stipulation, the district agreed to share a certain percentage of its surplus operating result with its staff. The expected use of available reserves in fiscal 2019 is due in part to the district's surplus operating result in fiscal 2018 with distributions to be made to staff during the fiscal 2019 year. In our opinion, should the district end with the budgeted drawdown, it is unlikely to have a material effect on its fund balance.

However, we believe that future budgetary challenges are likely if the district is unable to make the necessary budgetary adjustments to avoid financial deterioration should enrollment decline, coupled with the loss of the additional revenues from the county that have been boosting its operations.

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 include strong revenue and expenditure assumptions, including the use of multiple years of history and consultations with outside sources. It addition, management practices include monthly budget monitoring and quarterly reporting of budget-to-actual results to the board. The district does not maintain a formal long-term financial plan, a long-term capital plan, or a debt management policy. Investment holdings and earnings are shared with the board on an annual basis. A formal reserve policy is in place to maintain a minimum reserve of 5% of expenditures.

Debt

Overall net debt is 2.9% of market value and $1,751 per capita, which we believe to be low. With 100% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Although amortization is rapid, debt service carrying charges were only 4.4% of total governmental fund expenditures (excluding capital outlay) in fiscal 2018, which we consider low.

According to the district, it has about $6 million of authorized debt that it plans on issuing in 2021.

The district has one privately placed bond, the series 2015 limited-tax GO school building and site bonds, with an outstanding amount of $190,000. There are no acceleration provisions in the bond document that we believe could pose a significant contingent liquidity risk.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $3.9 million toward its pension obligations in fiscal 2018, or 12.7% of total governmental expenditures. It also paid $982,000, or 3.2% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 15.8% of total governmental fund expenditures in 2018, which we consider high.

Michigan statute establishes, and could amend, MPSERS' benefit provisions. For our calculations, we consider the district's statutorily determined contribution its required pension contribution. According to Governmental Accounting Standards Board (GASB) Statement No. 68, which the district implemented for financial statements ended June 30, 2015, employers with benefits administered through cost-sharing, multiple-employer pension plans such as MPSERS must report their proportionate share of the net pension liability.

MPSERS' net pension liability at Sept. 30, 2017, the last actuarial valuation, was $26.5 billion; the funded ratio--the plan's fiduciary net position as a proportion of total pension liability--was 64%. The district's proportion of the net

MPSERS' liability at June 30, 2018, was $39.4 million. Its proportionate share of the net pension liability reflects statutorily required contributions related to all reporting units' statutorily required contributions for the measurement period. Consistently low pension-funded ratios could lead to an eventual increase in contributions and potential budget stress.

The GASB 75 valuation of the net OPEB liability for the district is $13.4 million and funded at 36.39%. The district expects to continue to fund this OPEB liability on a pay-as-you-go basis.

Outlook

The stable outlook on the long-term rating reflects that on the state of Michigan and moves in tandem with the state rating.

The outlook reflects our opinion that the district will likely maintain its strong reserves given its track record. It also reflects our opinion that while the district's pension costs are high, it is likely that it will continue to absorb those costs without exhibiting deterioration in its reserves. Additionally, the outlook reflects the district's stable local economy. Therefore, we do not anticipate changing the rating during the two-year outlook horizon.

Downside scenario

A lower rating is likely if the district reverts to its prior-year structurally imbalanced operations and its available fund balance materially deteriorates.

Upside scenario

We could raise the rating if the district continues its positive operating results and its available reserves and economic indicators improve to levels that are commensurate with those of higher-rated peers.

Related Research

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

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