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Ratings

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Summary:

Cabell County Board of Education, West Virginia; School State Program

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Credit Profile		
US$87.5 mil pub sch bnds ser 2020 due 06/01/2036		
Long Term Rating	AA-/Stable	New
Underlying Rating for Credit Program	A+/Stable	New

Rating Action

S&P Global Ratings assigned its 'A+' underlying rating and 'AA-' program rating to Cabell County Board of Education (BOE), W.Va.'s expected $87.5 million series 2020 general obligation (GO) bonds. The 'AA-' program rating reflects the district's participation in the West Virginia Municipal Bond Commission program. The outlook is stable.

The series 2020 GO bond proceeds will be used to construct three new elementary schools as well as for renovations at a number of the district's existing buildings.

The underlying rating is based on the Cabell County Board of Education's full-faith-and-credit pledge, which secures the bonds.

We rate bonds in the program--based on the application of our criteria titled "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," published Nov. 20, 2019, on RatingsDirect--on par with the issuer credit rating (ICR) on West Virginia, reflecting the state's annual commitment, through the commission, to pay debt service on behalf of a municipality or local school district should a sinking-fund deficiency occur.

The stable outlook on the 'AA-' program rating reflects S&P Global Ratings' opinion of the outlook on the ICR on West Virginia. The program rating will move in tandem with the state ICR.

Credit overview

In fiscal 2019, Cabell County BOE reported a surplus in the general fund for the third time in four years. The district's reserves are very strong, in our opinion, at 25.2% of expenditures at the end of the fiscal year, and management expects to add to its fund balance in fiscal 2020 since it once again realized a general fund surplus. S&P Global Economics indicates that the recovery from the COVID-19-induced recession could be uneven (see "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020), and we expect a near-term economic slowdown will continue at the local level. Over 60% of the district's revenue comes from state aid, and in our opinion, Cabell County BOE's finances are exposed to credit vulnerabilities related to COVID-19 since the district relies on the state for funding and West Virginia's budget may be adversely affected by the lagging economic recovery. The district is budgeting for a deficit of nearly 2% in fiscal 2021, but management is hopeful that it can once again outperform its budget and the deficit will be less than anticipated. Cabell County BOE's strong assessed values (AVs) provide it some ability to raise additional revenue from local sources. Furthermore, the district's low debt burden and very strong reserves provide it with the flexibility to meet its obligations and, if needed, make the necessary revenue and expenditure adjustments to maintain balanced operations in the near term.

The stable outlook on the 'A+' underlying rating reflects our expectation that Cabell County BOE's management will make the necessary adjustments to once again outperform its budget in fiscal 2021 and beyond thus maintaining balanced general fund operations. We expect the district to maintain at least very strong available reserves despite a probable transfer of its unassigned fund balance to the capital fund and the probable decline in state aid due to enrollment declines. The district's strong market values, good management team, and low debt burden provide further rating stability. Our outlook is generally for two years, but we see significant downside risks due to the pandemic and U.S. recession over the next six to 12 months.

The rating reflects our opinion of the district's general creditworthiness, including its:

- Recent positive general fund performance and maintenance of very strong reserves,
- Good financial management under our financial management assessment methodology,
- Diverse tax base with strong market values, and
- Low debt burden.

We believe the above strengths are offset by our view of the district's incomes, which we consider low; adequately funded pension plan; and declining enrollment with reliance on state aid for funding.

Environmental, social, and governance factors

Our rating action reflects our view regarding the health and safety risks posed by the COVID-19 pandemic, which could negatively affect state funding. Absent the implications of COVID-19, we consider the district's social risks to be in line with those of the sector, though we will continue to monitor enrollment declines. The district has not experienced any increases in extreme weather events or other environmental factors. Therefore, we view its environmental and governance risks to be in line with those of the sector.

Stable Outlook

Downside scenario

We could lower the rating if the district cannot sustain balanced operations, with prolonged weak budgetary performance possibly due to cuts in state funding resulting in a material decrease in its currently very strong level of reserves.

Upside scenario

We could raise the rating if the district's economic metrics were to improve while the district maintains balanced general fund performance and very strong reserves, all else being equal.

Credit Opinion

Economy

Cabell County BOE serves an estimated population of 94,256 in Cabell County in western West Virginia. The roughly 288-square-mile district sits partly along the southern bank of the Ohio River, bordering Ohio and about 10 miles from the Kentucky border. The county seat is Huntington, the home of Marshall University, and Cabell County is a part of the Huntington-Ashland metropolitan statistical area, which provides residents access to employment in a number of sectors including health care, education and government services, leisure and hospitality, and manufacturing.

The district's median household effective buying income (EBI) is 68% of the national average while per capita EBI is 75%, which are adequate, in our view. Management reports some residential development, particularly in the eastern portion of the county, but both commercial and residential development is limited throughout most of the county. At $67,936 per capita, the fiscal 2021 market value is estimated to be $6.4 billion, which we consider strong. Since 2017, AVs have increased by $208.4 million, or 5.7%, to $3.8 billion in fiscal 2021. In our opinion, given the limited growth in the county, the tax base is unlikely to see sharp increases but should continue its small but steady increases. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 12% of AV in fiscal 2020.

As with other counties in the state and the nation in 2020, Cabell County experienced a sharp increase in its unemployment rate in the wake of the COVID-19 pandemic and the related recession. The county's unemployment rate reached 16.3% in April 2020 before falling to 8.3% in August. Its annual unemployment rate remained roughly three percentage points below 10% in the aftermath of the Great Recession.

Cabell County BOE operates 18 elementary schools, four middle schools, two high schools, a career academy, a preschool, and an alternative school serving a projected 11,860 students in fiscal 2021. Since fiscal 2015, enrollment has decreased by 1,344 students, or 10.2%. Management attributes the enrollment decline to low birth rates and population loss across the county and state, as well as changes to the state's compulsory school age in 2019. The district completed an enrollment projection last year, and it now expects enrollment stabilize and possibly increase. The district is currently operating under a hybrid education model, with set virtual and in-person attendance, as a result of the COVID-19 pandemic.

Finances

The district reported a surplus of $1.2 million, or 1.0%, in fiscal 2019 (June 30). The positive operational performance in fiscal 2019 continues the trend of the district's cautious budgeting practices and reporting better-than-budgeted results. In three of the last four audited years, the district added to its fund balance, and the one year it did not was due to a planned drawdown on reserves for capital costs. The district's total assigned and unassigned, available fund balance of $31.6 million is very strong, in our view, at 25.2% of general fund expenditures at fiscal 2019 year-end.

Although the fiscal 2020 audit is not yet complete, the district is expecting to report a $2.4 million surplus, or about 1.8% of general fund expenditures. Officials informed us that the surplus is due to cautious budgeting practices as well as less-than-budgeted expenditures, as costs for supplies, overtime, and transportation were lower than projected due to the COVID-19 pandemic and the closure of the district's facilities for much of the spring. As a result of the surplus, we expect the district's fund balance to increase to roughly $36 million, or 28% of general fund expenditures.

Cabell County BOE is budgeting for a deficit of $2.3 million, or 1.8%, in fiscal 2021. However, management believes that the district can achieve balanced operations. The district did not raise property taxes and is expecting state funding to decline as a result of a 2.1% drop in enrollment between fiscal 2020 and fiscal 2021. Therefore, management is budgeting for a decline in revenue but believes revenue will outperform budgeted levels because property tax collections remain stable. Furthermore, management believes it can manage expenditures so that costs are less than budgeted. Therefore, we believe the district will outperform its budget, and may approach balanced operations in fiscal 2021. Management reports that the district continues to be reimbursed for COVID-19-related costs through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and despite the economic uncertainty, Cabell County BOE did not cut and does not plan to cut any positions or reduce educational programming this fiscal year. However, beyond fiscal 2021, officials plan to align expenditures with revenue. Fiscal pressure could arise in the future if pension costs increase or enrollment continues to decline; furthermore there is some revenue uncertainty since the district is reliant on the state for the majority of its income.

In fiscal 2019, the district reported $133.2 million in revenue, with most (61.8%) funding coming via state aid, followed by local sources (37.2%). Management informed us that property tax collections are stable, and the district's strong market values provide it some flexibility to raise revenue through local sources. State aid funding, determined by enrollment, is the primary source of operating revenue for most West Virginia school districts. Therefore, increases or decreases in enrollment can lead to corresponding increases or decreases in revenue. Recent enrollment declines have resulted in loss of state aid for the district, and further drops in student enrollment could pressure Cabell County BOE's general fund budget. Furthermore, West Virginia's fiscal 2022 budget could be adversely affected by the lagging economic recovery, which may result in cuts to K-12 public education funding.

The district intends to transfer $10 million from its unassigned fund balance to the capital fund to help support its capital plans. This will lower Cabell County BOE's fund balance to approximately $25 million, or 19% of general fund expenditures, at the end of fiscal 2021, which we would still consider very strong. While we do not view it as likely at this time, if the district were to draw down reserves in the near future to cover any budget gaps or increasing costs, it may put pressure on the its financial position, resulting in a lower rating.

Officials do not anticipate any liquidity issues in the near term as a result of the COVID-19 pandemic due to reserves and cash on hand, and the district has no plans for any short-term borrowing for cash flow purposes.

Management

We consider Cabell County BOE's financial management practices good under our financial management assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

Management employs reasonable and well-grounded revenue and expenditure assumptions, using three to five years of historical data and consulting outside sources. Officials are cautious in their budgeting practices, and the district usually outperforms its budget, specifically revenue. Management reports top-line budget-to-actual expenditure performance to the board monthly, and the budget can be amended as needed. The district's 10-year capital improvement plan outlines all projects and costs across the district and identifies revenue sources, and officials inform us the plan is updated annually, which we expect to continue. The district's formal investment management policy specifies what investment types are permissible, and investment holdings and balances are reported to the board monthly. Although the district lacks a formal fund balance policy, officials target maintaining two months of reserves for cash flow purposes, which they are currently meeting. The district does not maintain a long-term financial forecast or a debt policy that goes beyond state guidelines.

Cabell County BOE has not been the victim of any cyberattacks, and it has taken steps to further mitigate exposure to cyber-related risks including continuing employee education and working with the West Virginia Department of Education to implement best practices and receiving cyberinsurance coverage through the state.

Debt

After the proposed issuance, we expect overall net debt to increase to approximately 1.5% of market value and $1,008 per capita, which is low, in our view. Debt service carrying charges were 4.2% of total governmental fund expenditures, excluding capital outlay in fiscal 2019, which we consider low, and we do not expect costs to rise after this issuance since the district's prior debt will be fully paid off with no overlap. The district's total direct debt is approximately $95.0 million, and the district reports no overlapping GO debt. We expect amortization to be average with 58% of direct debt scheduled to be retired within 10 years.

According to management, the district does not have any alternative financings such as direct-purchase debt or variable-rate debt; thus, all debt is fixed rate to maturity. Officials informed us that the district has no debt plans in the next two years.

Pension and other postemployment (OPEB) liabilities

- Although pension and OPEB costs are not currently a source of credit pressure for Cabell County BOE, the district's largest plan is only adequately funded and some assumptions are in our view aggressive, which could result in higher costs in the future.
- Furthermore, recent volatility in the markets could result in further declines in the West Virginia Teachers Retirement System's (WVTRS) funded ratio, leading to higher costs for the district.
- The district provides OPEB though a cost sharing, multiple-employer defined-benefit health care plan, contributions are on a pay-as-you-go basis, and changes in assumptions or increases in the liability could result in increased costs.

Cabell County BOE participates in the following plans as of June 30, 2019:

- WVTRS: 71.2% funded, with a proportionate share of the plan's net pension liability of $7.9 million, and
- West Virginia OPEB: 31.0% funded, with the district's share of the plan's net OPEB liability of $9.7 million.

The district paid its fully required contribution of $5.5 million toward its pension obligations, or 3.3% of total governmental expenditures, in fiscal 2019. Since fiscal 2015, the district's WVTRS contribution has decreased $349,000, or 5.9%. The district also reported an expense of $3.2 million, or 1.9% of total governmental expenditures, toward its OPEB obligations in fiscal 2019. Combined pension and OPEB carrying charges total 5.2% of total governmental fund expenditures in 2019. The WVTRS plan made funding progress in the most recent year, with contributions in excess of both our minimum and static funding progress metrics. Employer contributions to the plan are actuarially calculated using a layered amortization, with a level dollar of pay method, over a 15-year period. In our view, the plans' amortization methods are, for the most part, cautious; however, with liabilities measured using a discount rate of 7.5%, we see risk of cost escalation due to market volatility but view the primary risk as contributions not keeping up with an actuarial plan toward full funding.

Related Research

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of December 1, 2020)		
Cabell Cnty Brd of Ed pub sch bnds ser 2020 due 06/01/2036		
Long Term Rating	AA-/Stable	Rating Assigned
Underlying Rating for Credit Program	A+/Stable	Rating Assigned
Cabell Cnty Brd of Ed pub sch rfdg bnds		
Long Term Rating	AA-/Stable	Current