

Gwinnett County School District, Georgia; Appropriations; General Obligation

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Credit Profile		
US\$275.0 mil GO sales tax bnds ser 2012A due 10/01/2017		
<i>Long Term Rating</i>	AAA/Stable	New
US\$36.0 mil GO rfdg bnds taxable & tax exempt ser 2012B-1 & 2012B-2 due 10/01/2015		
<i>Long Term Rating</i>	AAA/Stable	New
Gwinnett Cnty Sch Dist GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Gwinnett Cnty Dev Auth, Georgia		
Gwinnett Cnty Sch Dist, Georgia		
Gwinnett Cnty Dev Auth certs of part (Pub Sch Proj)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Gwinnett County School District, Ga.'s series 2012A general obligation (GO) sales tax bonds and series 2012B-1 and 2012B-2 GO refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the district's previously issued GO bonds and its 'AA+' underlying rating (SPUR) on the district's development authority certificates of participation (COPs).

The 'AAA' rating reflects our view of the district's:

- Participation in the Atlanta metropolitan area economy, which, though continuing to experience the lagging effects of the recession and the collapse of the housing market, is expected to rebound, albeit likely at a slower pace of economic growth than achieved before the downturn;
- Strong income and wealth levels;
- Strong financial management, which has allowed the district to maintain a good financial position despite ongoing growth and budget challenges; and
- Low debt burden, in large part due to the district's ability to fund its ongoing capital needs through the special local option sales tax (SPLOST) program.

The 2012A bonds are first payable from SPLOST proceeds. To the extent that the district's share of the proceeds of the SPLOST are insufficient to make debt service payments, the principal of and interest on the 2012A bonds are payable from an ad valorem tax unlimited as to rate or amount, upon all taxable property within the district's boundaries. The bond proceeds will finance the district's ongoing capital construction and renovation program.

The series 2012B bonds are GOs of the school district. The district will use bond proceeds to refund the district's series 2002 bonds.

Gwinnett County School District is coterminous with Gwinnett County (AAA/Stable GO bond rating), excluding the City of Buford's school district. Located approximately 25 miles northeast of downtown Atlanta, the county has experienced rapid growth and development over the past few decades, with the 2010 U.S. Census population of 793,096 representing a 37% increase over 2000 and a 130% increase since 1990. The county's unemployment rate has historically tracked below the state average while income levels are above state and national averages. The district is the largest school system in Georgia, providing educational service to 163,000 students as of December 2011. After increasing by more than 5% annually through 2007, the pace of enrollment growth has slowed to an average of 1.4% over the past five school years. The school district currently operates 77 elementary schools, 26 middle schools, and 19 high schools.

The collapse of the real estate market continues to affect the county's tax base. The gross taxable digest of roughly \$30 billion for fiscal 2012 represents a decrease of more than 16% since the peak of \$34.6 billion in fiscal 2009. Officials expect an additional 6% to 8% decrease for fiscal 2013, with stabilization in fiscal 2014. Still, the district currently estimates the full market value of the tax base at roughly \$72 billion, yielding a market value per capita of \$90,000, a level we consider strong.

Management's ability to manage spending and accommodate enrollment growth in the face of a decreasing tax digest and ongoing state quality basic education (QBE) aid reductions has enabled the district to maintain a good financial position. While the district reported a modest \$5 million net operating deficit for fiscal 2010, it reported annual net operating surpluses from fiscals 2007 to 2009. In fiscal 2011, (unaudited) revenues were roughly flat compared with fiscal 2010 because the decrease in local tax revenue was offset by an increase in state QBE aid due to the receipt of \$31 million of Federal Education Jobs Fund money. General fund spending was also flat through the continuation of various cost-saving measures including salary and hiring freezes, employee furlough days, and a 7.5% district-level operating expense (fuel, utilities, and instructional utilities) reduction. The district closed the year with a \$23 million net operating surplus, which increased the total general fund balance to \$177.2 million; of this amount, \$68.8 million is assigned and \$100 million is unassigned as per Governmental Accounting Standards Board (GASB) 54, which will be implemented with the fiscal 2011 audited financial statements. The combined assigned and unassigned fund balance of \$168.8 million is equivalent to 13.6% of general fund expenditures, which we consider strong.

The fiscal 2012 general fund operating budget totals \$1.2 billion, which is a 3.1% decrease from the 2011 budget. An assumed 8% further decrease in the property tax digest and the sunset of federal stimulus money necessitated further spending adjustments, which for 2012 include staff attrition, no cost-of-living or salary increases, two furlough days, and a 5% cut in district-level operating expenses. An appropriation of \$31 million of assigned fund balance is included to balance the budget. The operating millage rate is unchanged at 19.25 mills, for the seventh consecutive year, yet limits the district's tax-revenue-raising flexibility as it is close to the 20-mill operations and maintenance tax-rate limit. The debt service millage rate also remains unchanged at 1.3 mills. Through the first six months of the fiscal year, officials report that revenues are trending at or slightly above budget, while spending is expected to be slightly under budget at the end of the year. The district expects fund balance levels to approximate the balance at the end of fiscal 2010, which would keep reserves at a level we consider strong.

Gwinnett County School District's management practices are considered "strong" under Standard & Poor's Financial Management Assessment. An FMA of strong indicates that practices are strong, well embedded, and likely sustainable. In accordance with the implementation of GASB 54, officials recently modified the district's fund balance policy, which now targets maintenance of an unassigned fund balance between 5% and 10% of

expenditures. The \$100 million of unassigned fund balance at the end of fiscal 2011 was equivalent to 8.1% of spending.

Even after the upcoming issuances, the school district's overall estimated debt burden, inclusive of overlapping debt, is still low, in our opinion, at \$1,900 per capita and 2.1% of market value. Debt service carrying charges remain what we consider moderate and are budgeted at roughly 12.3% of the school district's fiscal 2012 all-funds budget. Despite being amortized over five years, the district does not expect the upcoming series 2012A bond issuance to materially increase debt service costs because it expects to pay the bonds from dedicated SPLOST revenues, and because it will be layered on top of the district's existing debt profile.

Outlook

The stable outlook reflects our view of the district's demonstration of strong financial management, which provides us comfort that officials will continue to take proactive measures to maintain a structurally balanced budget and successfully manage its ongoing capital construction program. However, given the weak economic recovery, we expect budget pressures to continue in the near term, and the district has limited flexibility to raise property taxes. While the rating is not expected to change within the two-year outlook horizon, operating deficits that lead to a reduction in reserve levels could put downward pressure on the rating.

Economy: Positive Long-Term Prospects

Once one of the hottest markets in the nation, Atlanta remains hampered by persistent weakness in the housing sector, as prices are down more than 40% since the onset of the downturn. IHS Global Insight projects that metropolitan area job growth will proceed at a slower pace than that experienced before the downturn, but long-term prospects remain positive due to the area's central location and strong transportation network. Weakness will continue in construction and finance in the near-term, but the recovery will be driven by services industries, most notably education and health services. The area experienced a return to positive, though meager, job growth in 2011, which Global Insight expects to increase to 2% in 2012. Population growth is projected to increase by an average of 1.7% annually from 2012 to 2017.

As of November 2011, Gwinnett County's unemployment rate is 9.2%, which is down from 10.2% in November 2010 and notably lower than the Atlanta MSA's rate of 10.3%. The county's median household effective buying income is strong at 129% of the national average, while per capita effective buying income is good, in our view, at roughly 100% of the national average. Major employers within the county include the school district (20,421 employees), the county government (4,817), and Gwinnett Health Care System (4,120). Leading private employers include Scientific Atlanta, a Cisco company, as well as Fiserv, Primerica, and NCR Corp. The county also has a significant retail presence, anchored by two large shopping centers: Gwinnett Place Mall and Mall of Georgia. Per capita retail sales are 115% of the national average.

SPLOST Program

On Nov. 8, 2011, county voters approved the extension of the district's SPLOST program from 2012 through 2017. During this period, the district's capital program includes plans for five new high schools, nine school additions and renovations, and classroom technology improvements. A maximum of \$876 million is authorized to be collected

over the five-year timeframe, with \$859 million going to the district and the remainder to Buford City School District. In our view, the continuation of the SPLOST program is a credit positive for the school district because it significantly reduces the district's need to fund capital with debt or general operating revenues. Despite a decrease in sales tax collections since the recession, we understand that the district has been able to complete all necessary school projects due to conservative SPLOST revenue projections, the slowdown in enrollment growth, and cost savings from favorable construction bids.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

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