

## **FITCH AFFIRMS RICHLAND COUNTY SCHOOL DISTRICT NO. 2, SC'S IDR AT 'AA'; OUTLOOK STABLE**

Fitch Ratings-New York-03 November 2016: Fitch Ratings has affirmed the following Richland County School District No. 2, South Carolina (the district) underlying ratings at 'AA':

--Issuer Default Rating (IDR);  
--\$419.5 million general obligation (GO) bonds.

The Rating Outlook is Stable.

### **SECURITY**

The GO bonds are backed by an irrevocable pledge of the district's full faith and credit and unlimited taxing authority. The bonds are enhanced by South Carolina's obligation to intercept state school aid payments to make timely debt service payments on the bonds, in accordance with Article X of the state's constitution, rated 'AA+' by Fitch. (For more information on the South Carolina School Credit Enhancement Program see 'Fitch Affirms South Carolina's School District Credit Enhancement Program at 'AA+'; Outlook Stable', dated July 24, 2014.)

### **KEY RATING DRIVERS**

The 'AA' IDR and GO bond rating reflect the district's limited independent revenue raising capacity, which is somewhat offset by expectations for continued solid revenue growth and the gap-closing capacity of ample reserves. The liability burden should remain moderate based on the rapid amortization of debt and limited expected debt issuance in the medium term.

#### **Economic Resource Base**

The district is located in northeastern Richland County, immediately northeast of the capital city of Columbia. The estimated 2015 population was 132,767, showing slight growth at 1.5% annually since the 2010 census. The district is the fifth largest in the state.

#### **Revenue Framework: 'a' factor assessment**

General fund revenues are increasing at a strong pace, ahead of national economic expansion. The district's budget requires approval by the county council, which ultimately sets the district's operating millage rate.

#### **Expenditure Framework: 'aa' factor assessment**

Fixed carrying costs are an elevated 29% of spending. Debt service is the majority of this metric and is high due to the rapid amortization rate of debt. Operating costs are more flexible due to the labor environment in South Carolina.

#### **Long-Term Liability Burden: 'aa' factor assessment**

The districts long-term liability burden is primarily driven by direct debt, which is decreasing due to rapid amortization. The remaining portion of the burden is from the district's share of the net pension liability in the state's cost-sharing plan, which is funded at 60%.

#### **Operating Performance: 'aaa' factor assessment**

The district consistently maintains reserves in excess of what Fitch considers satisfactory for the rating category based on the stable revenue sources and limited budget flexibility.

## RATING SENSITIVITIES

**MAINTENANCE OF FINANCIAL FLEXIBILITY:** The rating is sensitive to material changes in the district's level of financial flexibility and resilience, which Fitch expects to remain solid throughout the economic cycle.

## CREDIT PROFILE

Given its proximity to the state capital, the district's primary employer is state government, followed by local government. Long-term workforce stability is additionally provided by the district's proximity to Fort Jackson, the U.S. Army's largest training installation, and the main campus of the University of South Carolina.

The county is also a regional health center with four primary acute care hospitals which offer a broad range of medical services and include an advanced cardiac care facility and a Veteran's Administration facility.

Economic indicators for the county compare positively to those of the state and the poverty level is low. Per capita income levels are above the state's and near % the nation's. Population growth in the greater Columbia, SC metropolitan statistical area was a modest 1.1% annually from the 2010 census to the 2015 census estimates.

### Revenue Framework

Funding for public schools in South Carolina is provided by a combination of state (approximately 50%), local (approximately one-third), and federal resources. Under the mandates of the Education Finance Act of 1977 (EFA) the state department of education first determines the per-pupil cost for all school districts. The amount of local support a district is required to provide is then determined by formula that compares a district's fiscal capacity to other school districts in the state, based on the full market value of all taxable property of the district.

Approximately 60% of the district's general fund revenues come from the state, and property taxes are the second largest revenue source at 35%. General fund revenues increased rapidly over the previous decade well ahead of national GDP growth. Enrollment increases produced significant additional state per-pupil funding and local revenues benefited from strong growth in the tax base. Policy action to increase the ad valorem tax rate accounted for a minority of this growth. Expectations for future enrollment growth at 2% to 3% are lower than historically strong growth. This enrollment growth and solid track record of consistent state per-pupil funding increases add to the enrollment-related funding prospects.

The district does not have fiscal autonomy and is reliant on the county council to set the district's operating millage rate. According to South Carolina's Act 388 annual increases in the millage rate are limited to CPI plus the rate of population growth in the district.

### Expenditure Framework

90% of general fund spending is made up of wages and benefits that support instruction.

As with most local governments, the natural pace of spending growth will likely be near to slightly ahead of revenue growth as a result of moderate increases in the cost of personnel and increasing enrollment in the district.

Fixed carrying costs are estimated at an elevated 29% of the district's governmental spending net of refunding costs. These costs include debt service, pension actuarially required contributions and estimated other post-employment benefit (OPEB) payments. Debt service alone accounts for 19% of spending in fiscal 2015, not including a refunding issued that year. The amortization rate of debt is rapid at 75% retired in 10 years. The labor environment in the state benefits the district

as there are no restrictions on layoffs or furloughs, class size, or student-to-teacher ratios. The state mandates a minimum teacher salary, but the district pays well above the required minimum.

#### Long-Term Liability Burden

The district's long-term liability burden is moderate at about 16% of personal income and made up of a mix of debt and net pension liability. The district's capital plans are also moderate at about \$10 million in expected debt issuance per year or about 2% of the district's debt, which will change as school building needs are assessed in the districts 10-year facility study. Strong enrollment growth in recent years has somewhat abated and the district expects no need for a new school for at least five years. With the rapid amortization rate of debt, about \$35 million is retired annually, which will drive down the liability burden in the medium-term.

The district participates in the South Carolina Retirement System (SCRS), which is a cost-sharing multi-employer defined benefit plan operated by the state. The district's portion of plan assets is 60% of the liability and closer to 57% when using Fitch's 7% investment return assumption. The remaining net pension liability is about 6% of personal income. Increases in requirements for employer contributions are likely in the future as the state plans attempt to improve funding levels.

#### Operating Performance

Fitch expects the district to maintain a healthy fund balance at least at the reserve safety margin level needed for a 'aaa' financial resilience assessment considering the limited budgetary flexibility with regards to revenue raising ability and carrying costs. A history of revenue stability that included property tax rate increases with approval from the county has allowed the district to match revenues to expenditures. Expenditure flexibility has enabled the district to produced surplus results for at least the last seven years despite fluctuating state aid levels and budgetary pressure from rapid enrollment growth.

The district has postponed filling some positions after budget cuts during the downturn, which Fitch believes adds flexibility to the current budget. The district reports staying current on capital spending to keep up with district growth and there are no significant needs outstanding. The district transferred \$1.9 million from the general fund to the capital fund in fiscal 2015, which was 0.8% of the budget.

Fiscal 2016 unaudited results estimate a \$2 million addition to fund balance after transfers. The fiscal 2017 budget is balance and calls for an \$8.5 million increase for wages and \$2 million for pension, totaling about 4% of the overall 6% increase in the budget.

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Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

### Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)

<https://www.fitchratings.com/site/re/879478>

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# MOODY'S

## INVESTORS SERVICE

May 10, 2016

7 World Trade Center  
250 Greenwich Street  
New York, NY 10007  
[www.moody's.com](http://www.moody's.com)

Dr. Harry Miley  
Richland County School District 2, SC  
6831 Brookfield Road  
Columbia, SC 29206

Dear Dr. Miley:

We wish to inform you that on May 4, 2016, Moody's Investors Service reviewed and assigned an underlying rating of **Aa2** to Richland County School District 2, SC, General Obligation Bonds, Series 2016; and an enhanced rating of **Aa1** to Richland County School District 2, SC, General Obligation Bonds, Series 2016.

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Richland County School District 2, SC  
6831 Brookfield Road  
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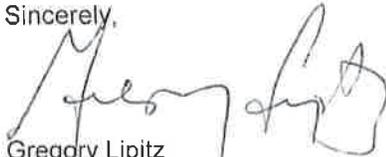
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If there is a conflict between the terms of this rating letter and any related Moody's rating application, the terms of the executed rating application will govern and supercede this rating letter.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Evan Hess at 212-553-3910.

Sincerely,



Gregory Lipitz  
VP-Sr Credit Officer/Manager

cc: Ms. Laura Foster  
First Union National Bank  
1301 Gervais Street, 17<sup>th</sup> Floor  
Columbia, SC 29211

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# S&P Global Ratings

55 Water Street, 38th Floor  
New York, NY 10041-0003  
tel 212-438-2000  
reference no.: 1436109

May 9, 2016

School District No. 2 of Richland County  
6831 Brookfield Road  
Columbia, SC 29206  
Attention: Dr. Harry Miley, Chief Financial Officer

**Re: *US\$11,352,466.67 Richland County School District #2, South Carolina, General Obligation Bonds, Series 2016, dated: Date of delivery, due: September 01, 2021***

Dear Dr. Miley:

Pursuant to your request for a S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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New York, NY 10041-0003

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Sincerely yours,

S&P Global Ratings

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cc: Ms. Laura A. Foster, Paralegal  
McNair Law Firm, P.A.

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