S&P Global Ratings

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Summary:

Traverse City Area Public Schools, Michigan; General Obligation

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Credit Profile		
US$32.0 mil 2023 sch bldg & site bnds (GO-unltd tax) ser III due 05/01/2033		
Long Term Rating	AA-/Stable	New
Traverse City Area Pub Schs GO		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to Traverse City Area Public Schools, Mich.'s roughly $32 million series 2023-III general obligation (GO) school-building-and-site bonds.
- S&P Global Ratings also affirmed its 'AA-' rating on the district's existing GO debt.
- The outlook is stable.

Security

An unlimited full-faith-and-credit pledge secures the series 2023-III bonds and existing debt. Officials intend to use series 2023-III bond proceeds to finance:

- Athletic facility, classroom, and site improvements;
- Heating, ventilation, and air-conditioning upgrades; and
- Technology, bus, equipment, and furniture purchases.

Credit overview

The roughly 300-square-mile district is primarily in Grand Traverse County and partially in Leelanau and Benzie counties. There has been strong property tax base growth recently, and the district's population has been increasing; however, enrollment--a major determinant of state aid and the leading operating revenue source at 50%-60% of revenue--is on a historical decrease due to lower birth rates. Despite this, reserves have improved during the past several fiscal years due to management's conservative budgeting, per-pupil funding increases, and COVID-19-related funding. Operating pressure could materialize if expenditures continue to increase while enrollment decreases, which would be exacerbated if there were state funding cuts or if there were evidence of COVID-19-related funding being used to achieve structural balance.

The district has been awarded $20.4 million in COVID-19-related funding, or 20% of operating revenue and expenditures, which plays a major role in fiscal years 2021 and 2022 general fund surpluses considering it allocated more than half of COVID-19-related funding ($11.9 million) to these years. Officials are mostly using funding for one-time costs and are projecting to have about $3.5 million remaining at fiscal year-end 2023.

Management currently plans to issue $10 million of additional GO bonds in 2025 and possibly more GO debt thereafter; debt-service costs could become elevated due to additional debt, but we do not expect debt to create budgetary pressure because all debt is secured by an unlimited property-tax levy, which has been 3.1 mills for more than 20 years.

The rating reflects our view of the district's:

- Large, mostly residential tax base; extremely strong wealth; and historically low taxpayer concentration;
- Below-average reserves compared with similar-rated peers and reserves that increased in fiscal 2022 due largely to $3 million in COVID-19-related funding, which it used to increase general fund reserves;
- Enrollment that has annually decreased by 1.3%, on average, since fiscal 2014, and management's expectation for mild decreases during the next few years;
- Good financial-management policies, practices under our Financial Management Assessment (FMA) methodology, highlighted by monthly budget-to-actual reporting to the board, rolling multiyear financial projections, and adherence to a policy requiring a minimum general fund balance of 10% of expenditures;
- Property tax revenue that has annually increased since fiscal 2014 due to tax base growth; and
- Manageable debt despite additional debt plans, considering all debt is scheduled for retirement within the next 10 years.

Environmental, social, and governance

In our view, the district faces elevated social risks due to negative demographic trends, which could pressure long-term financial and economic prospects. Environmental and governance factors are neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' view that the district's current financial position will be maintained during the two-year outlook, aided by a positive state funding environment.

Downside scenario

We could lower the rating if the district were to enter a period of budgetary imbalance, leading to material reserve decreases. The likelihood of a lower rating could increase if enrollment losses were to accelerate, if it were to become apparent that stimulus funds were used for budgetary balance, or if debt were to increase materially.

Upside scenario

We could raise the rating if reserves were maintained at higher levels and if enrollment were to stabilize.

Traverse City Area Public Schools, Michigan select key credit metrics

	Characterization	Most recent	--Historical information--		
			2022	2021	2020
Economic indicators					
Population		--	--	86,820	86,497

Traverse City Area Public Schools, Michigan select key credit metrics (cont.)					
	Characterization	Most recent	--Historical information--		
			2022	2021	2020
Median household effective buying income (EBI) as a % of U.S.	Good	--	--	107.0	102.0
Per capita EBI as a % of U.S.	Strong	--	--	114.0	111.0
Market value ($000)		--	16,575,506	15,054,308	14,174,180
Market value per capita ($)	Extremely strong	--	190,918	173,397	163,869
Top 10 taxpayers as a % of taxable value	Very diverse	--	3.0	2.6	2.7
Financial indicators					
Total available reserves ($000)		--	12,377	9,618	6,442
Available reserves as a % of operating expenditures	Strong	--	11.4	9.5	6.5
Total government cash as a % of governmental fund expenditures		--	13.8	12.1	10.9
Operating fund result as a % of expenditures		--	2.5	3.5	(1.6)
Financial Management Assessment	Good				
Enrollment		8,946	9,124	9,209	9,723
Debt and long-term liabilities					
Overall net debt as a % of market value	Low	1.4	1.2	1.1	1.0
Overall net debt per capita ($)	Moderate	2,610	2,204	1,977	1,709
Debt service as a % of governmental fund noncapital expenditures	Moderate	--	13.3	13.4	13.5
Direct debt 10-year amortization (%)	Rapid	100.0	100.0	100.0	100.0
Required pension contribution as a % of governmental fund expenditures		--	11.7	11.4	11.2
Other postemployment benefits actual contribution as a % of governmental fund expenditures		--	2.8	2.9	3.2
Minimum funding progress, largest pension plan (%)		--	97.0	75.5	77.3

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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022