



# **School District No. 5 of Lexington County and Richland County (SC)**

## **Impact of Fund Balance on Credit Ratings**

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## District Fund Balance Policy

- ◆ To provide sound fiscal management and stability, an undesignated operating reserve fund consistent with the medial averages for issuers that retain at least an Aa2/AA credit rating will be maintained by the District. This average may change from time to time but generally ranges from 15% to 18% of the general fund budgeted expenditures.
- ◆ Maintaining a sufficient fund balance provides the District financial flexibility to handle unforeseen financial circumstances as well as to provide cash flow for operations prior to the receipt of tax collections.
  - Some issuers without sufficient reserves rely on the issuance of Tax Anticipation Notes to bridge this gap.
- ◆ As discussed on the following pages, fund balance is also the most important factor when looking at the overall credit rating of an issuer.



## Current Credit Ratings and Rationale

- The District's current underlying credit ratings are Aa2 from Moody's and AA from S&P. The ratings are enhanced by the state intercept program which is rated Aa1 by Moody's and AA by S&P.
- Rationale for Moody's Ratings (per March 2022 report):
  - Favorable location within South Carolina's capital region
  - Strong resident income metrics
  - Solid, stable financial position (structural balanced operations)
  - Long-term liabilities slightly higher than comparably rated schools nationwide
- Factors that Could Lead to an Upgrade (per March 2022 report):
  - Moderation of long -term liabilities and associated fixed costs
  - Improvement in fund balance and liquidity to levels in line with higher rated school districts
- Factors that Could Lead to a Downgrade (per March 2022 report):
  - Significant increase in long term liabilities or associated fixed costs
  - Material decline in fund balance and liquidity



## Moody's Rating Criteria

- Moody's uses a Scorecard system to provide the basis for credit ratings. The scorecard outcome is not always the final rating outcome as factors outside of the Scorecard are also considered.
- The Scorecard is broken down into 4 components:
  - Economy: 30%
  - Financial Performance: 30%
  - Institutional Framework: 10%
  - Leverage: 30%
- The Financial Performance component is broken down between Available Fund Balance Ratio (20%) and Net Cash Ratio/Liquidity (10%)
- The Available Fund Balance Ratio includes unassigned, assigned, and committed fund balances in the calculation and is compared to operating revenues
- Depending on the level of the Ratio, Moody's assigns a credit score
  - $\geq 25\%$  equates to Aaa
  - 17.5% - 25% equates to Aa
  - 10% - 17.5% equates to A
- Under Moody's calculation of Available Fund Balance Ratio, which is slightly different than how the District calculates its fund balance, the District falls within the Aa category.