S&P Global
Ratings

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Summary:

Cherokee County School District, Georgia; General Obligation; School State Program

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Table Of Contents

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Credit Profile		
US$99.785 mil GO bnds ser 2025 A due 02/01/2035		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
US$81.565 mil GO bnds ser 2025 B due 02/01/2033		
Long Term Rating	AA+/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
Cherokee County School System GO State Credit Enhancement		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating and 'AA' underlying rating to Cherokee County School District, Ga.'s $100 million series 2025A and $80.965 million series 2025B general obligation (GO) bonds.
- At the same time, we affirmed our 'AA+' long-term rating and our 'AA' underlying rating on the district's GO debt outstanding.
- The outlook is stable.
- The rating reflects the application of its criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

Security

The long-term rating reflects the district's participation in the Georgia State Aid Intercept program. For more information on the Georgia State Aid Intercept program, see "Georgia Credit Enhancement Programs," published July 10, 2024.

The underlying rating solely reflects the district's credit quality. The district's full faith and credit, including its ability to levy ad valorem property taxes without limitation as to rate or amount, secures its 2025 bonds and GO bonds outstanding. Proceeds of a 1% education special-purpose local option sales tax (SPLOST) may be used to pay principal and interest on the bonds. Should such revenue be insufficient, the bonds are payable from the district's unlimited taxing authority. The 2025A bond proceeds will finance capital projects related to new and existing school facilities as part of a $290 million authorization for SPLOST VI, of which $90 million is remaining. The 2025B bond will be used towards refunding the series 2015 bonds for net present value savings.

Credit overview

The rating reflects our view of the district's economy, track record of positive results, and maintenance of a good level of reserves. Cherokee County School District's broad economic base is supported by growth and proximity to the Atlanta-Sandy Springs-Roswell metropolitan statistical area (MSA), which continues to expand. The district's positive net operating performance and maintenance of reserves are in line with its fund balance policy threshold of 15% of expenditures. While the debt profile will likely remain at moderate levels given its plans to issue its remaining $90 million authorized debt outstanding, we expect any pressure will be in part mitigated by its rapid amortization which exceeds 90%. Similarly, we will continue to monitor the district's pension and other postemployment benefit (OPEB) profile as costs are likely to escalate, potentially constraining the rating.

The underlying rating reflects our opinion of Cherokee County School District's:

- Diverse local area economy, with incomes above the national average and tax base growth that benefits from access to the greater Atlanta-Sandy Springs-Roswell MSA;
- Stable enrollment base; and
- Sufficient reserves, with a ten-year track record of positive general fund operating results; and
- Moderate debt service carrying charge costs that are offset by rapid amortization and one-time debt payments, with somewhat elevated pension and OPEB carrying costs.
- For more information on our institutional framework assessment for Georgia school districts, see "Institutional Framework Assessment: Georgia Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

We have analyzed environmental, social, and governance factors and view them as neutral within the credit-rating analysis.

Outlook

The stable outlook on the program rating reflects our view of the strength of Georgia's state aid intercept structure and the subsequent security enhancement that it provides.

The stable outlook on the underlying rating reflects the district's participation in the larger Cherokee County economy which remains robust, as well as its consistent finances and rapid debt amortization.

Downside scenario

We could lower the rating if the district's financial performance deteriorates, leading to sustained drawdowns in reserves to levels no longer comparable with those of similarly rated peers.

Upside scenario

We could raise the rating if economic indicators were to improve to levels we consider consistent with those of higher-rated peers while the district maintains solid finances.

Credit Opinion

Economy

The district is coterminous with Cherokee County and is just north of Atlanta. As a predominately residential economy with a large rural area, it benefits from the labor opportunities in the broader region surrounding Atlanta. As a result, incomes are somewhat higher than national averages. However, the county's economic activity is below national averages, reflecting its predominately residential character.

Commercial and residential development supports tax-digest growth, with market value increasing 58% over the last three years. Given that property taxes account for 48% of the district's budget, we believe this growth continues to support the district's revenue-generating ability. At the same time, we note that the district intends to opt-out of the Georgia House Bill 581 homestead tax exemption. If unsuccessful, it limits the district's ability to raise property tax rates, which could slow revenue generation. In this event, the district has generated various long-term scenarios which include reducing services offered as well as increasing the millage rate. While we expect a favorable outcome based on our conversations with management, we will continue to monitor the situation. If the opt-out does not occur, we believe the district is prepared to make the appropriate decisions to maintain a stable financial position.

The district provides educational services through its 23 elementary schools, seven middle schools, six high schools, one preschool center, one evening high school, one special-education school, one alternative school, and one virtual academy. Enrollment has been somewhat stable, and despite projected population growth trends, we expect it will remain flat over the next few years. State aid accounts for 43% of district revenue and is based on the quality basic education (QBE) formula which is enrollment driven. Given the projected stability, we expect state aid to remain predictable. Overall, we expect that the strength of the economy and regional growth will continue to support the rating.

Financial Performance, Reserves, and Liquidity

The district has produced consecutive surpluses which management attributes to conservative budgeting practices. Fiscal 2024 represents a decade of operationally positive results, with sufficient levels of available fund balance in the general fund. It intends to use a portion of reserves for one-time capital projects so as to maintain fund balance at around 15% of expenditures, in line with its policy which aligns with the state's requirement. The district changed its budgeting practices in fiscal 2020 whereby it started collecting its SPLOSTs for capital projects directly in its capital reserve fund and then transfers the required amounts into its debt service fund for payments. As a result, the majority of the district's debt is managed outside the general fund.

The adopted fiscal 2025 budget totals $587 million, or about an 10% increase over the fiscal 2024 budget. The biggest budget consideration was providing additional compensation increases for teachers and staff to keep pace with cost-of-living increases. Management reports results in line with the budget to date with another surplus expected at fiscal year-end 2025. Overall, we expect the district to remain structurally balanced while maintaining its reserve cushion.

Management

Financial management policies and practices are comprehensive and forward-looking. Highlights include the district's:

- Conservative budgeting practices using historical revenue and expenditure trends, with long-term projections included in the annual budget document. Budget-to-actuals are monitored daily, with a monthly report provided to the school board.
- Maintenance of multiyear financial forecast which includes scenario planning and is reviewed as part of its annual budget. It also conducts long-term capital planning and planning for the ESPLOST program.
- Formalized polices across key areas. Its reserve policy is to maintain 12%-15% of unassigned fund balance as a proportion of the prior year's budgeted expenditures in line with state guidelines. The district also has a formal investment and debt management policy, whereby debt service many not exceed 12% of expenditures, with the provision that if SPLOST revenue is used, that figure can increase to 15% and historically, the district has adhered to its policies.

Debt and Liabilities

Including this issuance, the district has $526.8 million in direct debt outstanding. It has about $90 million of additional authorized debt, coupled with a renewal of the SPLOST program due in March 2026; we understand that the district will issue these bonds in 2026 or 2027. Although it has historically issued tax anticipation notes annually to bridge a gap in timing for receipt of property tax revenue, it has not had to do so since 2020 thanks to improved cash flow. We anticipate that its carrying charges will likely remain moderate given the additional debt plans ahead, with an intent to rapidly amortize the debt over 14 years. We also view positively its ability to defease its series 2014 bonds in full as planned, which we have incorporated into our analysis.

We view the district's pension and OPEB liabilities as elevated, with significant liabilities analogous to its size, and funding levels that fall short of our minimum and static funding progress calculations. At the same time, while the discount rate improved to 6.9% in fiscal 2023, from 7.25% in fiscal 2022, it remains likely, in our view, that it could lead to some escalating cost-trajectory risk.

As of June 30, 2024, the district participated in:

- Teacher Retirement System of Georgia (TRS): 76.3% funded, with a proportionate share of the plan's net pension liability (NPL) of $584.6 million;
- Employees' Retirement System of Georgia (ERS): 85.7% funded, with a NPL of $0 and no contribution requirements for the past four years;
- Public School Employees Retirement System (PSERS): 84% funded, with a NPL of $4.9 million which is covered by the state;
- Cherokee County School District 403(b) deferred compensation pension plan, a supplemental retirement plan for

those covered under PSERS; and

- The school OPEB plan: Funded at 6% and the school's net OPEB liability is $257.4 million.

Georgia State Aid Intercept Program

The long-term enhanced rating reflects our assessment of the district's eligibility for, and participation in, the Georgia State Aid Intercept Program. The program rating is one notch below our GO rating on Georgia (AAA/Stable), reflecting our view of the following:

- Strong state support for the program and consistent, well-established state aid funding partly mitigate state aid appropriation risks.
- Maximum annual debt service (MADS) coverage on all parity debt by state aid payments, currently 3.37x in 2025 and 2.83x for stressed semiannual coverage as of Feb. 1, 2028, will likely remain strong.
- State aid distribution flow and debt service payment dates result in a moderate assessment of timing and administrative risks.

Table 1

Cherokee County School District, Georgia--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	2.07
Economy	3.5
Financial performance	2
Reserves and liquidity	1
Management	1.35
Debt and liabilities	2.50

Table 2

Cherokee County School District, Georgia--Key credit metrics	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.				49
County PCPI % of U.S.				101
Market value ($000s)		53,438,044	40,495,922	33,448,143
Market value per capita ($)		189,559	143,650	122,168
Top 10 taxpayers % of taxable value		2.4	2.9	3.4
County unemployment rate (%)		2.7	2.6	2.4
Local median household EBI % of U.S.			124	121
Local per capita EBI % of U.S.			106	104
Local population			281,907	273,789
Financial performance				
Operating fund revenues ($000s)		650,967	578,419	543,636
Operating fund expenditures ($000s)		623,722	556,891	504,401

Table 2

Cherokee County School District, Georgia--Key credit metrics (cont.)

	Most recent	2024	2023	2022
Net transfers and other adjustments ($000s)		(15,372)	(11,403)	1,267
Operating result ($000s)		11,873	10,125	40,502
Operating result % of revenues		1.8	1.8	7.5
Operating result three-year average %		3.7	4.1	4.1
Enrollment		42,016.0	41,855.0	42,049.0
Reserves and liquidity				
Available reserves % of operating revenues		18.5	14.9	13.6
Available reserves ($000s)		120,320	86,352	74,044
Debt and liabilities				
Debt service cost % of revenues		6.0	6.6	11.9
Net direct debt per capita ($)	1,867	1,556	1,271	1,401
Net direct debt ($000s)	526,780	438,753	358,386	383,592
Direct debt 10-year amortization (%)	97	100		
Pension and OPEB cost % of revenues		9.0	10.0	10.0
NPLs per capita ($)		2,074	2,074	2,348
Combined NPLs ($000s)		584,581	584,581	642,944

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPL--Net pension liabilities.

Ratings Detail (As Of February 6, 2025)

Cherokee Cnty Sch Dist GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed
Cherokee Cnty Sch Dist SCHSTPR		
Long Term Rating	AA+/Stable	Affirmed
Underlying Rating for Credit Program	AA/Stable	Affirmed