

**CREDIT OPINION**

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# Cherokee County School System, GA

## Update to credit analysis

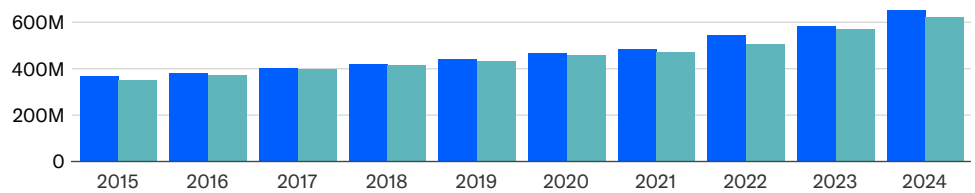
### Summary

[Cherokee County School System, GA](#) (Aa1 stable) has consistently maintained balanced operations and healthy reserves, despite rising operating costs in recent years. The district's strong finances are the product of multiple factors: prudent budget management, robust tax base growth, and (in more recent years) steadily rising state aid. These financial, economic, and governance strengths all help mitigate the district's above average long-term liabilities and anticipated near-term capital borrowing draws.

Exhibit 1

### Cherokee CSS has recorded consistent operating surpluses since at least FY15

■ General fund revenues ■ General fund expenditures



Source: audited financial statements

### Credit strengths

- » Multi-year trend of surplus operations and maintenance of sound reserve levels
- » Strong economic base with ongoing development activity and stable enrollment trends

### Credit challenges

- » Future capital needs will increase already above average leverage

### Rating outlook

The stable outlook reflects the expectation that the district's credit profile will remain in line with the rating category due to prudent budget management and capital planning and a strong and growing economic base.

### Factors that could lead to an upgrade

- » Completion of major capital needs and sustained maintenance of a long-term liabilities ratio of around 250% of revenue or less
- » Continued trend of balanced operations and maintenance of an available fund balance ratio at or above 30% of revenue

## Factors that could lead to a downgrade

- » Material increase in long-term liabilities ratio to over 400% of revenue
- » Sustained trend of declining reserves to below 18% of revenue

## Key indicators

Exhibit 2

### Cherokee County School System, GA

	2021	2022	2023	2024	Aa Medians
<b>Economy</b>					
Resident income	132.6%	135.9%	133.0%	N/A	118.5%
Full value (\$000)	\$24,599,994	\$26,941,536	\$33,448,143	\$40,495,922	\$4,184,901
Population	262,155	268,567	274,505	N/A	32,217
Full value per capita	\$93,838	\$100,316	\$121,849	N/A	\$123,578
Enrollment	41,373	42,049	41,891	42,016	4,143
Enrollment trend	-0.7%	-0.3%	-0.7%	0.5%	-1.0%
<b>Financial performance</b>					
Operating revenue (\$000)	\$556,986	\$625,224	\$679,909	\$785,654	\$76,434
Available fund balance (\$000)	\$168,298	\$175,619	\$200,774	\$223,133	\$21,177
Net cash (\$000)	\$211,717	\$264,924	\$298,616	\$373,252	\$26,035
Available fund balance ratio	30.2%	28.1%	29.5%	28.4%	29.2%
Net cash ratio	38.0%	42.4%	43.9%	47.5%	35.9%
<b>Leverage</b>					
Debt (\$000)	\$444,530	\$420,521	\$392,219	\$477,766	\$52,318
ANPL (\$000)	\$2,110,278	\$1,829,837	\$1,524,235	\$1,306,596	\$107,625
OPEB (\$000)	\$305,165	\$222,160	\$201,007	\$219,131	\$8,874
Long-term liabilities ratio	513.5%	395.5%	311.4%	255.0%	301.4%
Implied debt service (\$000)	\$33,852	\$31,179	\$29,369	\$27,246	\$3,696
Pension tread water (\$000)	\$52,396	\$29,997	\$65,252	\$63,209	\$1,705
OPEB contributions (\$000)	\$8,341	\$8,230	\$9,020	\$9,620	\$363
Fixed-costs ratio	17.0%	11.1%	15.2%	12.7%	9.8%

The table above shows data through fiscal 2024, which is the latest year in which audited financial information is available for the district. The district's estimated fiscal 2025 full value is approximately \$42.7 billion.

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Cherokee County School System, GA's financial statements and Moody's Ratings

## Profile

The district is coterminous with Cherokee County (Aa1) and provides pre-kindergarten through twelfth grade education to approximately 42,000 students.

## Detailed credit considerations

### Economy

The district's economic base will continue to grow given ongoing new development, healthy population trends, and appreciating property values. Enrollment is likely to exhibit more gradual growth as the district's school-aged population stabilizes. Located in the northern portion of Metro Atlanta (Aa1 stable), Cherokee County's population of around 280,000 has grown at a solid annual rate of 2-3% for the last decade. The county's higher end housing stock and proximity to employment opportunities throughout the metro area contribute to the population gains, which are also driving new construction and increasing property values. The district's tax base was fully valued at \$40.5 billion in fiscal 2024, which was the second consecutive year that annual tax base growth exceeded 20%. Fiscal 2025 figures show about 5% year-over-year growth bringing full value to \$42.7 billion. District officials report that about one-third of the recent growth was driven by new construction and the remainder was due to reassessments.

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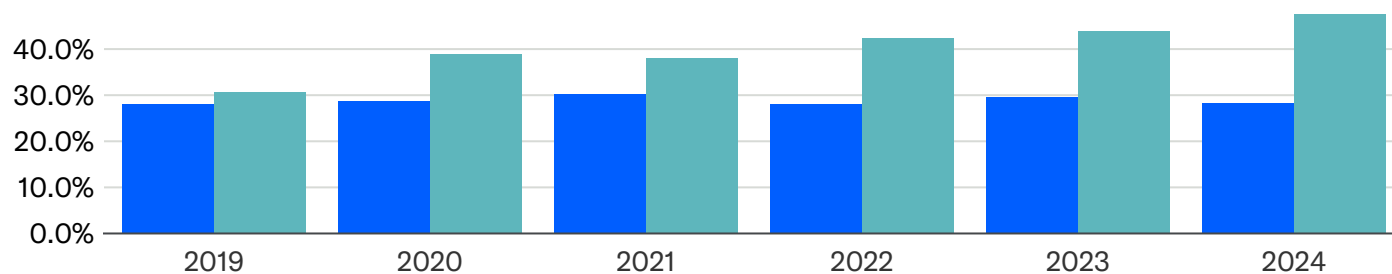
Like many districts, Cherokee CSS experienced a decline in enrollment in the wake of the coronavirus pandemic. Enrollment trends have since started to recover and district projections show enrollment growing at a modest but steady rate (0.4-0.9% annually) for the foreseeable future given the county's steady population trends. Officials expect enrollment to grow more slowly than the overall population due to a rising number of new senior residential developments that are underway. Such slower growth will help alleviate capacity demands while still supporting state aid receipts.

**Financial operations**

The district is expected to maintain balanced operations for the foreseeable future. The district has consistently added to its reserve position over the last nine fiscal years, with its available fund balance reaching \$223 million (28% of revenue) in fiscal 2024. This available fund balance figure does not include \$138 million of restricted fund balance that is held in the capital projects fund and is comprised of surplus sales tax (SPLOST) collections, general fund capital transfers, and bond proceeds. The fiscal 2025 budget is essentially balanced, with a small addition to fund balance expected.

Exhibit 3  
Financial Trends

■ Fund Balance as a % of Revenues ■ Cash Balance as a % of Revenues



Source: Moody's Ratings

One driver of the district's strong financial performance is robust growth in property taxes, which account for roughly half of annual operating revenue. Property tax revenue grew by nearly 60% in between fiscal 2019 and 2024. The growth is a result of the above mentioned tax base appreciation coupled with generally stable property tax rates. As of fiscal 2024, the district's operating millage was 16.45 mills, providing some headroom under its 20 mill cap.

Strong property taxes and improving state aid have helped the district maintain balanced operations despite substantial expenditure pressures in recent years that have been tied to increases in salaries, benefits, and healthcare costs, along with new programmatic needs that arose following the onset of the pandemic. While some new recurring personnel costs were funded with temporary federal pandemic relief money, the district will begin to fund these positions with its own dollars through a combination of attrition and organic property tax growth. An indication of the district's proactive budgeting, management updates a 5-year operating forecast annually as part of its budget process.

**Liquidity**

The district's cash balance was about \$373 million (48% of revenue) at the end of fiscal 2024. The difference between the district's available fund balance and cash balance is due to the capital projects fund, which has a \$138 million restricted fund balance that is reported in the audit as unrestricted cash.

**Leverage**

The district's long-term liabilities ratio will grow slightly in the coming year (to around 270% of revenue) due to the issuance of general obligation bonds; however, this ratio will continue to be driven by the district's unfunded pension obligations for the foreseeable future. Moody's adjusted net pension liability (ANPL, discussed in Pensions and OPEB below) for the district accounts for roughly 62% of its long-term liabilities. The district's bonded debt accounts for roughly 27% of its long term liabilities. In November 2021, district voters

renewed a 1% SPLOST and approved \$290 million of general obligation bonding authority. The district is currently in the process of issuing its second \$100 million tranche of this authorization, with the final \$90 million tranche tentatively scheduled for 2027. The ultimate size and timing of the subsequent issuances will be informed by how SPLOST collections perform.

#### **Legal security**

The bonds are general obligations of the district, ultimately payable from an unlimited ad valorem property tax levied upon all taxable property within the district.

As an additional security for the GOULT bonds, the district participates in the State of Georgia School District Intercept Program, under which the State Board of Education is required to transfer state aid appropriated for each school district directly to the paying agent in the event of debt service shortfalls.

#### **Pensions and OPEB**

Georgia school districts primarily participate in the Teachers Retirement System of Georgia (GA TRS). As of the retirement system's fiscal 2023 reporting, government contributions amounted to about 20.0% of payroll in aggregate, below our tread water indicator of 22.5% of payroll. Based on reporting by GA TRS, we expect Georgia school districts' adjusted net pension liabilities (ANPLs) to decrease by about 14% in fiscal 2024. While results will vary across US public pension systems, we generally expect local governments' fiscal year 2025 ANPLs to fall by around 20% based on our aggregate estimates, due to rising interest rates and above-target investment returns in 2024.

#### **ESG considerations**

The district's ESG Credit Impact Score is a CIS-1. The CIS score reflects strong budget management and ample revenue raising flexibility (both governance considerations) and favorable population, labor, and income trends (all social considerations). The district has limited exposure to environmental risks.

#### **Environmental**

The district's overall E issuer profile score is E-2, reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, natural capital, and waste and pollution.

#### **Social**

The district's S issuer profile score is S-1 and reflects solid population growth, strong in-migration trends, and relatively favorable labor/staffing considerations (such as strong retention rates and teacher fill rates), and relatively low health and safety related risks. The district's exposure to housing and access to basic services related risks is neutral to low.

#### **Governance**

The district's G Issuer Profile Score is G-1. The district's policy credibility and effectiveness is strong as the district adheres to established financial policies and its capture rate is favorable (the percentage of school-aged children within the district's boundaries who attend its schools), indicating the district is not losing a material number of students to other educational alternatives in the area. The institutional structure for all Georgia school districts is in line with peers across the nation, as district's ability to increase local revenues is capped and/or subject to voter approval. The district has solid budget management practices. The district's transparency and disclosure practices are strong and include the publication of monthly financial reports.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 4

### Cherokee County School System, GA

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	133.0%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	155,655	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	0.0%	10.0%	A
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	28.4%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	47.5%	10.0%	Aaa
<b>Institutional framework</b>			
Institutional Framework	A	10.0%	A
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	259.8%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	12.7%	10.0%	Aaa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
<b>Assigned Rating</b>			<b>Aa1</b>

The complete list of outstanding ratings assigned to the Cherokee County School System, GA is available on their [issuer page](#). Details on the current ESG scores assigned to the Cherokee County School System, GA are available on their [ESGView page](#).

Sources: US Census Bureau, Cherokee County School System, GA's financial statements and Moody's Ratings

## Appendix

Exhibit 5

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Ratings
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Ratings
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Ratings

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