Research Update:

# St Martin Parish School District, LA GO Bond Rating Outlook Revised To Negative From Stable On Operating Deficits

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## Overview

- S&P Global Ratings revised the outlook on St. Martin Parish School District, La's general obligation (GO) bonds outstanding to negative from stable, and affirmed its 'A+' rating on the bonds.
- At the same time, S&P Global Ratings assigned its 'A+' long-term rating, and negative outlook, to the school district's proposed $10 million series 2025 GO school bonds.
- The revised outlook reflects the district's trend of operating deficits and depletion of unassigned reserves to low nominal levels.

## Rationale

### Security

The series 2025 bonds and the district's GO debt outstanding are direct obligations of the district, payable from a continuing ad valorem tax levied without limitation as to rate or amount.

We understand that series 2025 bond proceeds will finance various facilities upgrades throughout the district to address safety and security, HVAC, and roof replacements.

### Credit highlights

The rating and outlook reflect our view of the St. Martin Parish School District's trend of operating deficits and depletion of unassigned reserves to very thin nominal levels in fiscal 2024, somewhat offset in our view by the availability of nearly $20 million in committed reserves. The district's long-term trend of enrollment declines without sufficient offsetting expenditure cuts have contributed to the negative operating results in the past two audited fiscal years, with deficits expected to continue through fiscal 2026. Somewhat improving our view of reserves and liquidity, the district maintains a reserve stabilization policy, requiring commitment of a portion of general fund reserves for future operating needs. As of fiscal 2024, the district has $19.6 million--approximately 31%--in committed general fund reserves, which are available to support operations.

Budget-to-actual reports as of fiscal year-end 2025 (June 30) show another general fund deficit of approximately $2 million (4.4% of revenue); the district adopted about a 3% deficit budget for fiscal 2026. If the full deficit amounts are realized, available reserve levels, including the committed fund balance, are expected drop to approximately $19 million (35% of fiscal 2025 budgeted revenue), which we still view as strong. Based on proposed personnel reductions for fiscal years 2026 ($1.75 million) and 2027 ($862,000), the district expects to align staffing levels with enrollment figures, and to adopt a balanced budget for fiscal 2027. In addition, in the 2024-2025 school year, the district converted two existing facilities into magnet schools, which is driving some additional enrollment gains for the 2025-2026 school year. Federal grant funding that has been approved for five years is supporting several of the teaching positions in the magnet schools. Given the expected stabilization in enrollment trends, approved grant funding to offset some personnel costs, and the planned reductions in non-grant supported positions in the coming years, we expect the district to return to balanced operations beginning in fiscal 2027.

St. Martin Parish School District is a parishwide district, serving the entirety of St. Martin Parish. Local incomes and economic output metrics are significantly below average compared with the national median. Economic output is primarily spurred by manufacturing, midstream oil and gas, and agribusiness activities. Officials report one new manufacturing business that became one of the parish's top employers and taxpayers in the past five years; this company is currently in the second phase of a multiyear expansion. On the residential front, officials report an uptick in large-scale housing developments in the past few years, which have added several hundred homes to the tax base with estimated asking prices ranging from $250,000-$400,000. Another large residential project is currently under construction; no timeline for completion, or expected influence on enrollment levels are currently known, but officials do expect some enrollment growth from the new developments.

Credit fundamentals supporting the 'A+' rating include St. Martin Parish School District's:

- Limited economy primarily supported by manufacturing, oil and gas, and agribusiness, contributing to below-average income and economic output metrics compared with those of the nation;
- Recent trend of operating deficits, driven by declining enrollment and excess staffing, which are expected to continue through fiscal 2026. The district expects to make significant personnel reductions in the current and next fiscal years, with the goal of adopting a balanced budget for fiscal 2027. Somewhat offsetting our view of the negative trend in operations, the district maintains sizable available reserves, primarily committed, which we expect it will maintain during the outlook horizon;
- Financial policies and practices that include the use of historical data and trend analysis to inform budget assumptions. The board reviews budget-to-actual reports monthly. The district has an informal capital plan, outlining projects and costs associated with the current bond package, though there is no long-term capital planning or financial forecasting done beyond the current budget year. Investments and reserves are governed by formally adopted policies, the latter requiring minimum reserve levels of 25% of expenditures, which the district is currently meeting. There is no formal debt management policy, though the district benefits from enhanced state oversight from the bond commission.

- Debt and liabilities that are elevated, primarily due to the district's large pension and other postemployment benefits contributions. We do not expect current costs for debt and liabilities to increase significantly with the current issuance, and we note that, while elevated as a percentage of the budget, pension contributions have exceeded our minimum funding progress metric in the past four years, indicating that the district is making significant progress in reducing unfunded liabilities and minimizing long-term cost escalations. Furthermore, officials report the district's required contributions to its Louisiana Teachers Retirement System and Louisiana School Employees Retirement System plans have declined annually in recent years, and this trend is expected to continue, which could contribute to some relief on the operating budget. The district plans to issue the remaining $20 million from its GO authorization through 2027. We do not expect the additional debt issuance plans to worsen our overall view of the debt and liabilities profile.

## Environmental, social, and governance

Given the parish's proximity to the Gulf Coast, we consider it to have a higher exposure to acute physical risks within our credit analysis, including severe weather events and intermittent flooding, as well as exposure to chronic physical risks, including sea-level rise, extreme heat, and drought. Although extreme weather events are typically temporary, recurrence and prolonged exposure to these events can negatively affect property tax bases, tourism activity, and the pace of economic development for affected local governments. Furthermore, the parish's share of employment and economic output derived from energy-related activities, primarily in the oil and gas sector, is elevated compared with the national average, which could lead to increasing regulatory challenges or costs as some sectors of the global economy focus on reducing greenhouse gas emissions through renewable energy. This type of transition could pressure local economic bases that rely on the energy industry for employment and economic activity.

# Outlook

The negative outlook reflects a one-in-three chance that we could lower the rating if the district is unable to make budgetary adjustments to restore balanced operations and maintain available reserves within the formal policy range by fiscal 2027 .

## Downside scenario

We could lower the rating if operating deficits continue past fiscal 2026, or if deficit results for fiscal years 2025 or 2026 are larger than expected, resulting in material reductions in reserves with no credible plan to restore them.

## Upside scenario

We could revise the outlook to stable if the district's proposed budget reductions successfully align revenues and expenditures, resulting in maintenance of balanced operations and stable reserve levels beginning in fiscal 2027.

### St. Martin Parish School District, Louisiana--credit summary

| | |
|---|---|
| Institutional framework (IF) | 2 |
| Individual credit profile (ICP) | 3.14 |
| Economy | 5.5 |
| Financial performance | 3 |

## St. Martin Parish School District, Louisiana--credit summary

| | |
|---|---|
| Reserves and liquidity | 1 |
| Management | 2.70 |
| Debt and liabilities | 3.50 |

## St. Martin Parish School District, Louisiana--key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|---|---|---|---|---|
| **Economy** | | | | |
| Real GCP per capita % of U.S. | 41 | -- | 41 | 40 |
| County PCPI % of U.S. | 70 | -- | 70 | 70 |
| Market value ($000s) | 4,737,600 | 4,175,855 | 3,898,927 | 3,761,036 |
| Market value per capita ($) | 92,256 | 81,317 | 75,924 | 71,062 |
| Top 10 taxpayers % of taxable value | 17.4 | 16.5 | 21.8 | 21.0 |
| County unemployment rate (%) | 4.1 | 4.0 | 3.4 | 3.4 |
| Local median household EBI % of U.S. | 78 | -- | 78 | 75 |
| Local per capita EBI % of U.S. | 77 | -- | 77 | 72 |
| Local population | 51,353 | -- | 51,353 | 52,926 |
| **Financial performance** | | | | |
| Operating fund revenues ($000s) | -- | 63,829 | 60,912 | 57,621 |
| Operating fund expenditures ($000s) | -- | 77,611 | 75,510 | 66,574 |
| Net transfers and other adjustments ($000s) | -- | 11,885 | 12,024 | 10,019 |
| Operating result ($000s) | -- | (1,897) | (2,574) | 1,066 |
| Operating result % of revenues | -- | (3.0) | (4.2) | 1.9 |
| Operating result three-year average % | -- | (1.8) | 0.1 | 0.7 |
| Enrollment | -- | 6,877 | 7,172 | 7,348 |
| **Reserves and liquidity** | | | | |
| Available reserves % of operating revenues | -- | 35.2 | 40.6 | 44.4 |
| Available reserves ($000s) | -- | 22,489 | 24,716 | 25,575 |
| **Debt and liabilities** | | | | |
| Debt service cost % of revenues | -- | 8.1 | 8.8 | 9.4 |
| Net direct debt per capita ($) | 1,768 | 1,692 | 1,807 | 1,866 |
| Net direct debt ($000s) | 90,795 | 86,905 | 92,780 | 98,755 |
| Direct debt 10-year amortization (%) | 74 | 80 | -- | -- |
| Pension and OPEB cost % of revenues | -- | 15.0 | 15.0 | 15.0 |
| NPLs per capita ($) | -- | 1,576 | 1,675 | 1,633 |
| Combined NPLs ($000s) | -- | 80,948 | 85,995 | 86,447 |

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

| Ratings List |
|---|
| **New Issue Ratings** |
| US$10.0 mil GO sch bnds ser 2025 due 03/01/2045 |

| **Ratings List** | | |
|---|---|---|
| Long Term Rating | A+/Negative | |
| **Outlook Action** | | |
| | **To** | **From** |
| **Local Government** | | |
| St. Martin Parish Sch Dist, LA Unlimited Tax General Obligation | A+/Negative | A+/Stable |

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.