



ATLANTA PUBLIC SCHOOLS BOARD OF EDUCATION BUDGET COMMISSION

February 6, 2020

AGENDA

- ☐ FY2021 Preliminary Revenue Assumptions
- ☐ Current Budget Development Process Update
- ☐ Review Moody's Credit Assessment

GOALS

- ☐ To provide the Board with preliminary FY2021 revenue assumptions and align on recommendations
- ☐ To provide update on the FY2021 budget development process and allow the Board the opportunity to discuss
- ☐ To review Moody's credit assessment



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GOVERNOR'S STATE OF THE STATE

Governor's FY2020 Midterm Budget Highlights

- \$113 million for midterm adjustment for enrollment growth required by QBE funding program (Share to APS TBD)
- \$27 million for State Commission Charter Schools supplement (No impact to APS)

Governor's FY2021 Proposed Budget Highlights

- This is the first step of the budget process, Governor's recommendations go to the General Assembly Highlights include:
 - \$143.5 million for enrollment growth and routine adjustments in teachers' salaries (Impact to APS...TBD)
 - \$356.9 million to:
 - **Increased salaries for certified teachers and employees by \$2,000 (Impact to APS...TBD)**
 - **Provide a \$1,000 salary increase for non-certified personnel earning less than \$40,000 per year, effect July 1, 2020.**
 - TRS decrease from 21.14% to 19.06% (Impact to APS...TBD)
 - \$12.5 million in bonds for buses (Impact to APS...TBD)
 - \$50.5 million increase for State Charter Schools Commission (Impact to APS...TBD)
 - \$32 million for equalization program, which provides funds to district due to low property wealth (No impact to APS)
 - \$5.4 million to provide a 5% salary increase for transportation and food services employees (Impact to APS...TBD)



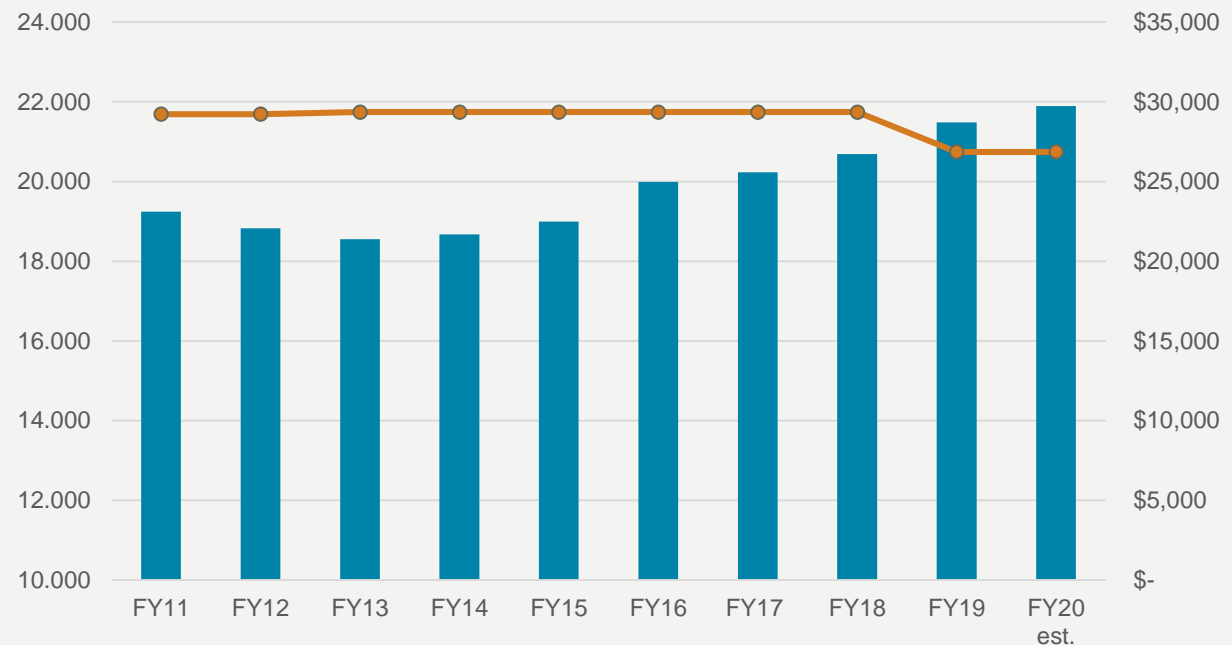
REVENUE ASSUMPTIONS

Considerations for Discussion / Millage Rate

Local

- ▶ A mill of tax is equal to \$1 per \$1,000 of assessed valuation
- ▶ Total millage decreased by one mill to 20.740 in FY2019
- ▶ It is at the lowest rate since the Great Recession
- ▶ The current rate is 20.740 mill

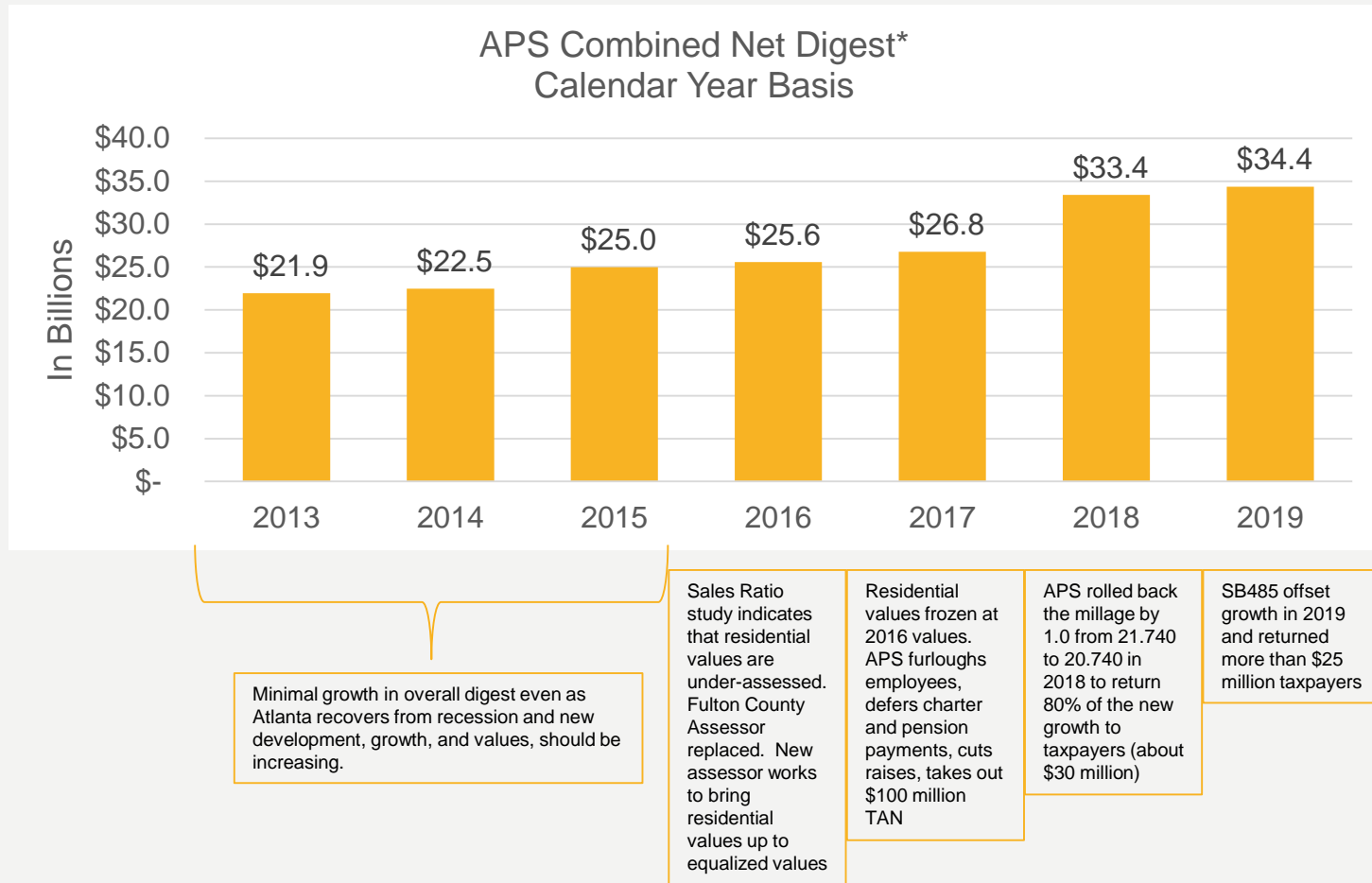
Millage Rate & Digest Value



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History of Local Revenue



*Figures represent the total combined DeKalb and Fulton available net digest before applying the APS millage rate.

Overview of the 2019 Digest

Property Type	Count	%	Total Value	%	Total Assessed Value	%	Exemptions	%	Less Exemptions	%	At APS Millage	%
Residential	134,151	88% ^{2a}	\$43,966	45% ^{2b}	\$17,586	54%	\$3,298	99% ³	\$14,288	49%	\$296	49% ^{4a}
Commercial	10,469	7%	\$37,373	39%	\$14,012	43%	\$18	1%	\$13,993	48%	\$290	48% ^{4b}
Industrial	1,518	1%	\$1,547	2%	\$618	2%	\$0	0%	\$618	2%	\$13	2%
Other*	978	1%	\$877	1%	\$53	0%	\$2	0%	\$50	0%	\$1	0%
Exempt	5,957	4%	\$13,223	14% ¹	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Total	153,073	100%	\$96,985	100%	\$32,269	100%	\$3,319	100%	\$28,951	100%	\$600	100%

Key Takeaways:

1. Roughly 14% of the total digest is exempt
2. Residential accounts for a. 88% of the parcels but only b. 45% of the total value of the digest
3. 99% of all APS eligible exemptions are to residential properties
4. After exemptions, the digest is a. 49% residential and b. 48% Commercial, almost evenly split
5. Property tax incentives (such as the abatement of taxes by the Development Authority of Fulton County and Invest Atlanta) are NOT reflected in these calculations. See slide 8 for more details.

*Other includes Conservation, Historic, Industrial, Residential, Mobile Homes, Utility, and Brownfield

** Dollar Values in Millions

Impact of TADs

Property Type TADs	Count	%	Total Value	%	Total Assessed Value	%	Exemptio ns	%	Less Exemptio ns	%	At APS Millage	%
Residential	15,189	74%	\$3,573	19%	\$1,429	31% ^{2b}	\$286	99% ^{3a}	\$1,144	27%	\$24	27%
Commercial	2,644	13%	\$7,633	40%	\$2,948	64% ^{2a}	\$2	1%	\$2,946	68%	\$61	68%
Industrial	603	3%	\$469	2%	\$187	4%	\$0	0%	\$187	4%	\$4	4%
Other	206	1%	\$393	2%	\$25	1%	\$0	0%	\$24	1%	\$1	1%
Exempt	2,003	10%	\$6,861	36%	\$0	0%	\$0	0%	\$0	0%	\$0	0%
Total TADs	20,645	100%	\$18,930	100%	\$4,590	100%	\$288	100%	\$4,301	100%	\$89	100%

Property Type	Count	%	Total Value	%	Total Assessed Value	%	Exemptio ns	%	Less Exemptio ns	%	At APS Millage	%
Total	153,073	100%	\$96,985	100% ¹	\$32,269	100%	\$3,319	100% ^{3b}	\$28,951	100%	\$600 ⁵	100%
Less TADs	20,645	13%	\$18,930	20%	\$4,590	14%	\$288	9%	\$4,301	15%	\$89 ⁴	15%
APS Available Digest	132,428	87%	\$78,055	80%	\$27,680	86%	\$3,030	91%	\$24,649	85%	\$511	85%

Key Takeaways:

1. Roughly 20% of the total APS digest is located in TADs
2. Within TADs, about a. 64% of the assessed value is in commercial (b. 31% Residential)
3. a. 99% of all APS eligible exemptions within TADs are residential (but only about b. 9% total of exemptions are within TADs)
4. After exemptions, only about 85% of the digest remains available to APS
5. At the 2019 millage rates, \$89 million remained unavailable to APS in the TADs

*Other includes Conservation, Historic, Industrial, Residential, Mobile Homes, Utility, and Brownfield

** Dollar Values in Millions

Changes from 2018 to 2019 in the Digest (Less TADs)

	Count	% Change	Total Value	% Change	Total Assessed Value	% Change	Exemptions	% Change	Less Exemptions	% Change	At APS Millage	% Change
Residential	173	0%	\$4,857	^{2b} 14%	\$1,943	14%	^{3a} \$1,118	^{3b} 59%	\$824	7%	\$17.10	^{4b} 7%
Commercial	(22)	0%	\$4,918	^{2c} 20%	\$1,629	17%	-\$35	-68%	\$1,664	18%	\$34.51	^{4c} 18%
Other	(31)	-2%	-\$1	0%	-\$9	-2%	-\$29	-93%	\$21	5%	\$0.43	5%
Exempt	9	¹ 0%	\$127	2%							\$0.00	
Total	129	0%	\$9,900	^{2a} 15%	\$3,563	15%	\$1,054	53%	\$2,509	11%	\$52.04	^{4a} 11%

Key Takeaways:

1. Number of properties on the digest remained relatively flat
2. Value of the digest went up a. 15% (b. 14% in residential and c) 20% in commercial)
3. Residential exemptions increased by over a. \$1 billion (up b. 59% from the previous year) because of SB485, which increased the homestead exemption from \$30,000 to \$50,000
4. After exemptions, the value of the digest increased by a. 11%, (b. 7% in residential and c. 18% in commercial)

*Other includes Conservation, Historic, Industrial, Residential, Mobile Homes, Utility, Industrial, and Brownfield

** Dollar Values in Millions

Impact of Exemptions

Impact of Exemption 2018 to 2019	Count		SB485	
Less Than \$100K	38,723	29%	\$69.28	6%
Between \$100K-\$250K	40,273	30%	\$377.31	31%
Between \$250K-\$500K	29,155	22%	\$383.24	31%
Between \$500K-\$750K	12,331	9%	\$192.69	16%
Between \$750K-\$1M	5,554	4%	\$90.29	7%
Between \$1M-\$2M	1,015	1%	\$12.85	1%
Greater than \$2M	6,043	5%	\$95.15	8%
Total	133,094	100%	\$1,220.82	100%

Impact of Exemption 2018 to 2019	% Change over previous year
Less Than \$100K	17% 2b
Between \$100K-\$250K	65%
Between \$250K-\$500K	73%
Between \$500K-\$750K	73%
Between \$750K-\$1M	71%
Between \$1M-\$2M	72%
Greater than \$2M	74%
Total	60% 2c

Key Takeaways:

1. A. 90% of residential parcels are valued at less than \$750K. B. 84% of the new exemptions of SB485 went to this selection of homes.
2. A. The impact of SB485 was spread almost evenly (b. homes valued at less than \$100K saw less of an exemption as the first \$10K became taxable), with an overall increase in exemptions of c. 60%
3. A reset of the base to the lesser of 2016, 2017, or 2018 values with a growth cap would create inequities with a large percentage of the exemption going to homes valued at greater than \$2million in value

* Dollar Values in millions

Other Considerations

- A “floating homestead” exemption *based on a fully and fairly assessed digest* could be a way to address gentrification, reduce appeals and increase fairness. Placing a cap on a digest where values are under-assessed, drastically vary from home to home within the same neighborhood, or are unfairly assessed, locks in those inequities in to perpetuity.
- A cap, that does not reset the base, may allow more predictability and decrease volatility for both homeowners and the governments that rely on those property taxes.
- Moving away from property taxes as a funding source for government services such as school districts.
 - Few states have moved away from funding schools with property tax; some have lessened the impact by increasing the amount of funding to school districts provided directly from the state.
 - “The property tax has incredible staying power. [Andrew Reschovsky’s research](#) has demonstrated its resiliency during economic downturns when other taxes (sales, income, for instance) prove to be more volatile. Predictability in revenue collections is a highly sought after feature for state and local policymakers and administrators responsible for setting and implementing school budgets. If a state were to eliminate the property tax, it would have to swap out those revenues for other revenues, likely income, sales or excise taxes, which tend to be far more volatile, and in some instances more regressive, than the property tax.” (<https://www.ncsl.org/research/education/funding-approaches-the-property-tax-and-public-ed.aspx>)

Other Impacts to (or due to) the Digest

	Abatements	DACF	Invest Atlanta	Total	YOY Increase	YOY % Increase
1	Actual FY2017	\$7,139,673	\$4,977,068	\$12,116,741		
	Actual FY2018	\$8,080,204	\$5,504,451	\$13,584,655	\$1,467,914	12%
	Actual FY2019	\$11,351,089	\$9,907,680	\$21,258,769	\$7,674,114	56%
	Projected FY2020	\$15,946,036	\$17,833,227	\$33,779,262	\$12,520,493	59%

2	Local Fair Share		Local Fair Share	Estimate
	FY2019	\$141,360,223	FY2020	\$153,998,992
	FY2020	\$153,998,992	FY2021	\$170,938,881
	Change	\$12,638,769	Change	\$16,939,889
	% Change	8.94%	% Change	11.00%

Key Takeaways:

1. The abatement of APS revenue by the Development Authority of Fulton County and Invest Atlanta cost the district a total of \$21.2 million in FY2019, up 56% from the previous year.
2. Local Fair Share (or local five mill share) is the amount withheld from our state QBE earnings based on the value of our digest. LFS does not consider local exemptions when calculating. We anticipate an increase in the amount withheld for FY2021 by about 11%, or nearly \$17 million. For context, we believe we will receive only about \$9 million to fund the \$2000 increase to the state teacher salary scale. This will likely mean an overall DECREASE in state funding for FY2021. Raises would need to be 100% funded from local.

Going Forward

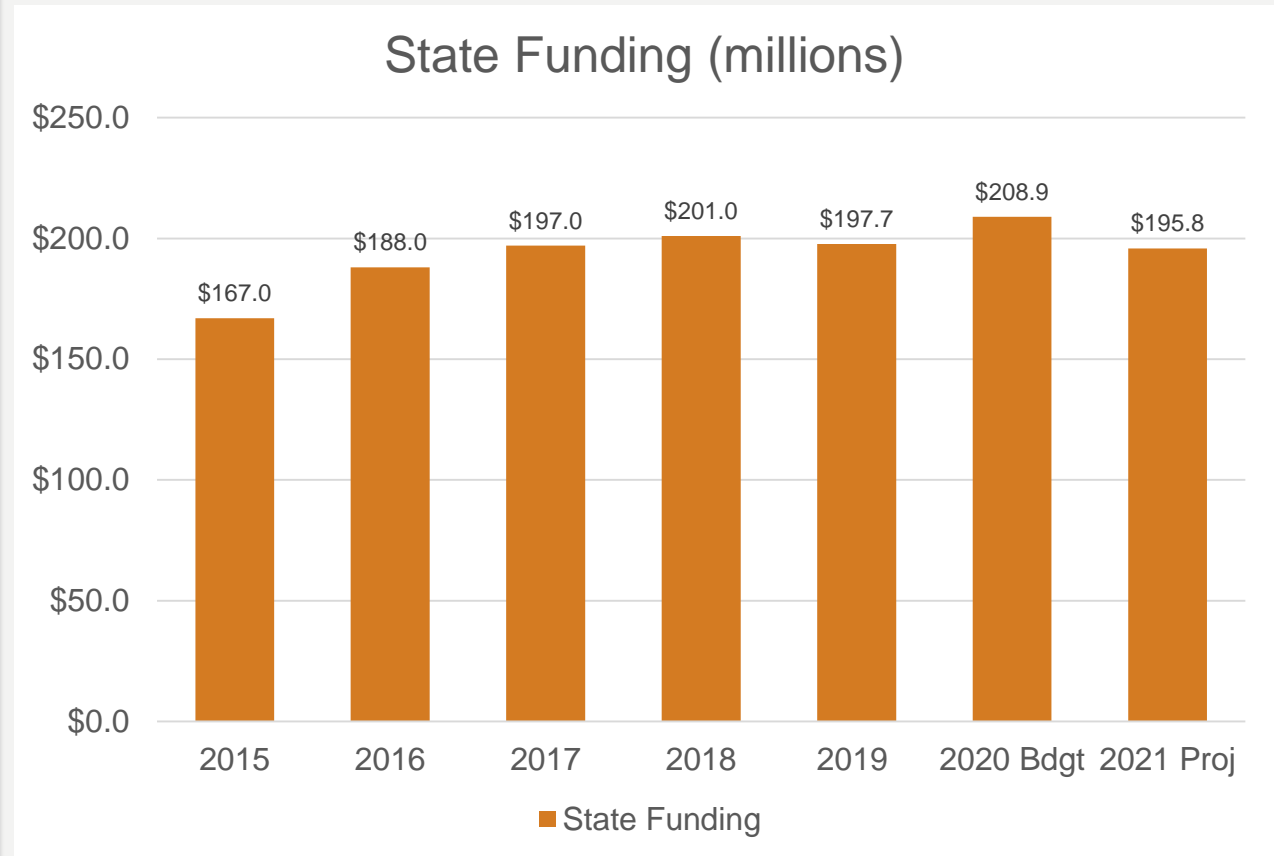
Bills we're watching

- HB 779: Title Ad Valorem Tax
 - Redistributes the taxes collected on motor vehicles, would decrease our current revenue by approximately \$9 million
 - FY 2018 - \$15.5 million (actual)
 - FY 2019 - \$17 million(actual)
 - FY 2020 - \$18.6 million (projected); Actual collections year to date (5 months only) - \$9.3 million
 - FY 2021 – \$9.6 million projected under the legislation; potential loss of \$9 million from current law

Considerations for Discussion

State

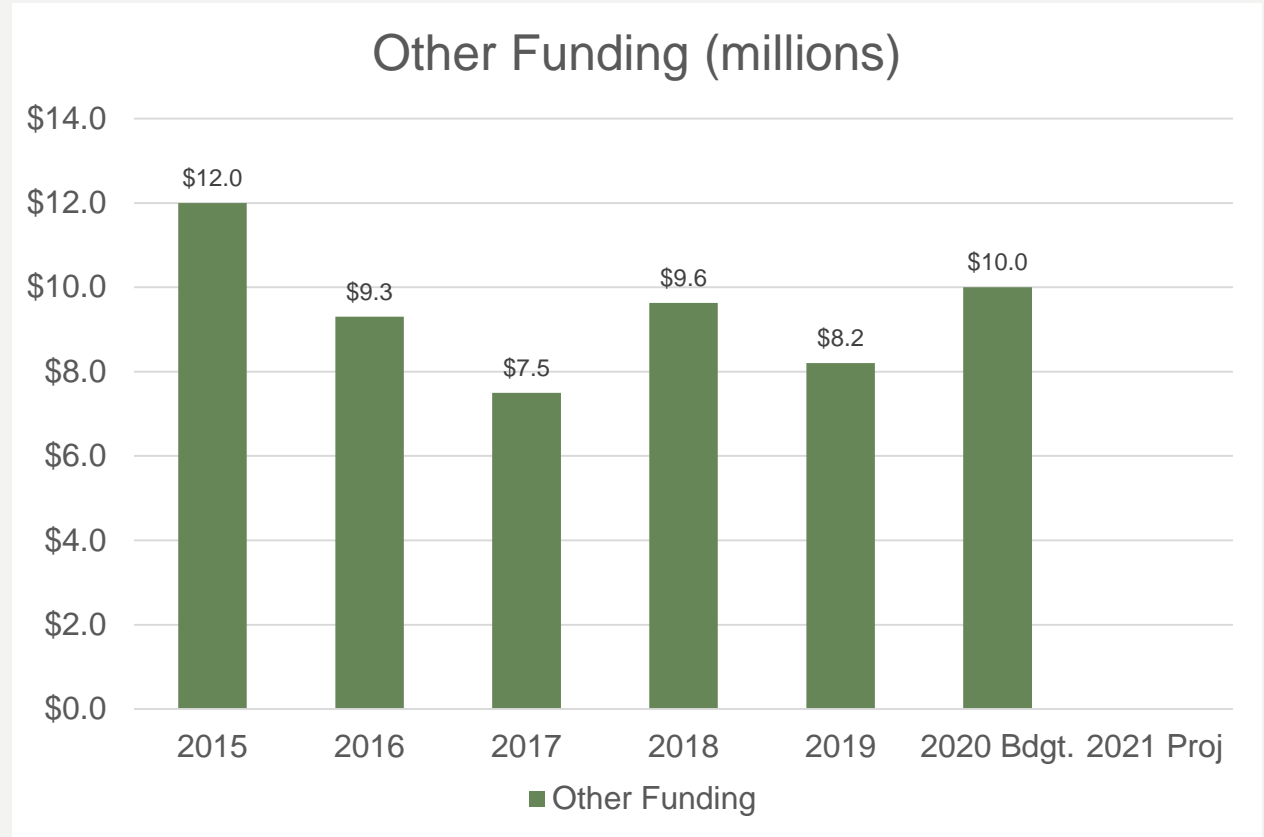
- ▶ Decreases for those employees eligible for TRS reimbursement from the State-rate from 21.14% to 19.06%
- ▶ Assumes an increase for LFS contribution by approximately 11%
- ▶ Assumes state grants will remain the same with the exception of \$2.6mill (\$30,000 per campus for safety grant)
- ▶ Salary increase will be offset by increase to local fair share.



Considerations for Discussion

Other

- ▶ Includes tuition, investment interest, rental of facilities, sale of assets, damages for reimbursements, charter buy-back, field trips, and other sources
- ▶ Federal reimbursement rate declining
- ▶ Assume slight decline or flat



Impact to Fund Balance

FY2019 Fund Balance	
Beginning Fund Balance	\$66,309,176
Change to Fund Balance	\$13,895,343
Ending Fund Balance	\$80,204,519
Expenditures	\$827,504,067
% of Expenditures	9.69%

Fund Balance increased from just over 8% to 9.69% of expenditures

FY2020 Fund Balance	
Beginning Fund Balance	\$80,204,519
Anticipated Change to Fund Balance	\$0
Ending Fund Balance	\$80,204,519
Expenditures	\$861,729,954
% of Expenditures	9.31%

The current FY2020 budget does not contemplate growing or using fund balance

FY2020 Fund Balance (With both FY2019 and FY2020 payments from IGA Settlement Agreement)	
Beginning Fund Balance	\$80,204,519
Anticipated Change to Fund Balance	\$23,000,000
Ending Fund Balance	\$103,204,519
Expenditures	\$861,729,954
% of Expenditures	11.98%

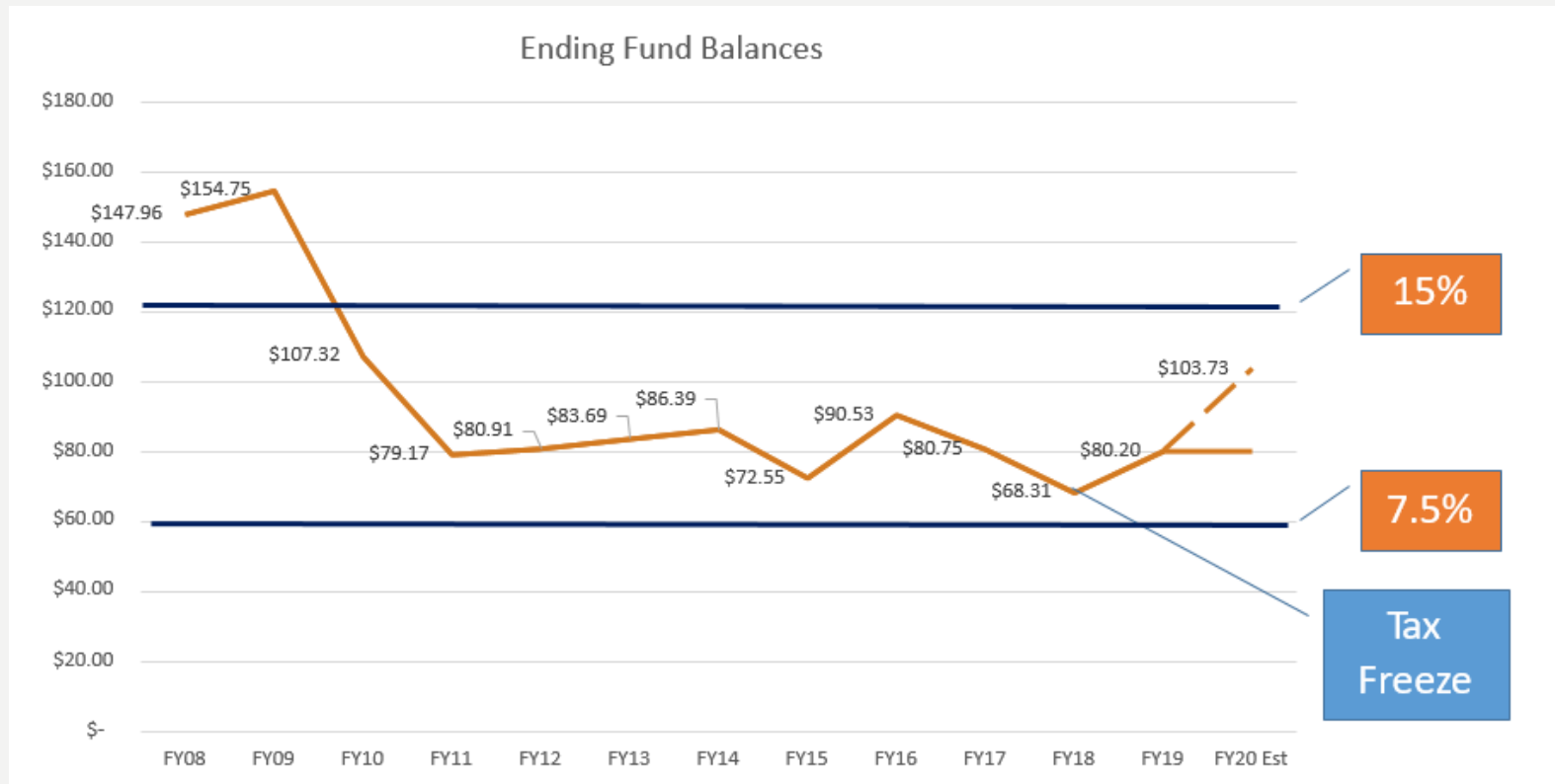
However, the one-time payment from FY2019 and the recurring payments negotiated in the TAD IGA would restore fund balance to a more comfortable 12%



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Fund Balance History



- In FY2009, the General Fund balance topped out at 157.9 million or 24.2% of that year's budgeted expenditures. In more recent year's fund balance has hovered between 9-14% of expenditures. For reference, the GFOA recommends as best practice to maintain two months-worth of expenditures within the fund balance, or 16.7%
- APS has a long-standing practice of maintaining a fund balance above 7.5% of revenue, but below the statutorily required cap of 15%
- The Fund Balance is equal to assets less liabilities for the calendar year and does not represent the cash on hand at any given time
- With an approved budget of \$854.23 million, the reserve range is between \$64 and \$128 million



BUDGET PROCESS REVIEW

Budget Development Process

<u>Senior Cabinet</u>	<u>Departments</u>	<u>Schools</u>	<u>Board</u>
<ul style="list-style-type: none"> February 18 March 3 <p>Senior Cabinet Retreat:</p> <ul style="list-style-type: none"> TBD 	<p><i>Budgets Released:</i></p> <ul style="list-style-type: none"> December 19 <p><i>Training & Support Sessions:</i></p> <ul style="list-style-type: none"> December 19 and January 8 <p><i>Additional Support Sessions:</i></p> <ul style="list-style-type: none"> January 22- January 31 <p><i>Budgets Locked:</i></p> <ul style="list-style-type: none"> February 21 	<p><i>Budgets Released:</i></p> <ul style="list-style-type: none"> January 13 <p><i>Workshop:</i></p> <ul style="list-style-type: none"> January 14 <p><i>Staffing Conferences & GoTeam Approval:</i></p> <ul style="list-style-type: none"> Early March <p><i>Budgets Locked:</i></p> <ul style="list-style-type: none"> March 2 	<p><i>Budget Commission:</i></p> <ul style="list-style-type: none"> February 6 February 20- (Joint with BFAC) March 19 April 16 May 21 <p><i>Tentative Adoption:</i></p> <ul style="list-style-type: none"> May 4 <p><i>Final Adoption:</i></p> <ul style="list-style-type: none"> June 1



MOODY'S CREDIT ASSESSMENT



Moody's Credit Assessment

prepared for

Atlanta Public Schools' General Obligation Credit

November 18, 2019

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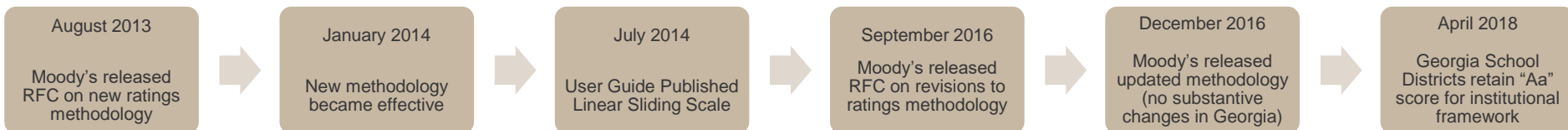


I. Overview of Moody's Rating Criteria for Local Governments



Moody's Criteria for Local Government G.O. Ratings

- In January 2014, Moody's implemented a new scorecard approach for local government G.O. ratings
- The scorecard is used as a reference tool to gauge a rating within one to two notches of the final assigned rating
 - Enhances the transparency of Moody's rating process
 - Standardizes the key quantitative and qualitative factors considered as part of the ratings analysis
 - Emphasizes simplicity and flexibility over complexity
 - Not an exhaustive list of factors that Moody's considers
- Final ratings are determined by a Rating Committee





Moody's Scorecard Calculations

- The scorecard is broken into four categories (Economy & Tax Base; Financials; Management; and Debt & Pensions) with two to four different metrics in each category
- The final scores for each metric are assigned a numerical value based on a linear sliding scale, and totaled according to their individual weighting
- The final value produces an indicated rating, but the indicated rating is **not** the final rating
- Indicated rating is subject to adjustment (up or down) based on “notching” factors
- The final rating is then determine through a formal meeting of the Rating Committee

Rating Category	Aaa	Aa	A	Baa	SG
Numerical Score	0.50-1.49	1.50-2.49	2.50-3.49	3.50-4.49	4.50-6.50

Indicated Rating	Overall Weighted Score
Aaa	0.50-1.49
Aa1	1.50-1.82
Aa2	1.83-2.16
Aa3	2.17-2.50



Moody's Local Government Rating Scorecard – School Districts

Moody's Local Government Rating Scorecard							
	Aaa	Aa	A	Baa	Ba	B and Below	Weight
Economy/Tax Base							
Tax Base Size: Full Value	> \$12B	\$12B ≥ n > \$1.4B	\$1.4B ≥ n > \$240M	\$240M ≥ n > \$120M	\$120M ≥ n > \$60M	≤ \$60.0M	10%
Tax Base Per Capita	> \$150,000	\$150,000 ≥ n > \$65,000	\$65,000 ≥ n > \$35,000	\$35,000 ≥ n > \$20,000	\$20,000 ≥ n > \$10,000	≤ \$10,000	10%
Median Family Income as % of US Median*	> 150% of US median	150% to 90% of US median	90% to 75% of US median	75% to 50% of US median	50% to 40% of US median	≤ 40% of US median	10%
Finances							
Fund Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 2.5%	2.5% ≥ n > 0.0%	0.0% ≥ n > -2.5%	≤ -2.5%	10%
5-Year Dollar Change in Fund Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%
Cash Balance as % of Revenues	> 10.0%	10.0% ≥ n > 5.0%	5.0% ≥ n > 2.5%	2.5% ≥ n > 0.0%	0.0% ≥ n > -2.5%	≤ -2.5%	10%
5-Year Dollar Change in Cash Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%
Management							
Institutional Framework*	Very Strong	Strong	Moderate	Limited	Poor	Very Poor	10%
Operating History: 5-Year Average of Operating Revenues/Operating Expenditures	> 1.05x	1.05x ≥ n > 1.02x	1.02x ≥ n > 0.98x	0.98x ≥ n > 0.95x	0.95x ≥ n > 0.92x	≤ 0.92x	10%
Debt/Pensions							
Net Direct Debt/Full Value	< 0.75%	0.75% ≤ n < 1.75%	1.75% ≤ n < 4.00%	4.00% ≤ n < 10.00%	10.00% ≤ n < 15.00%	≥ 15.00%	5%
Net Direct Debt/Operating Revenues	< 0.33x	0.33x ≤ n < 0.67x	0.67x ≤ n < 3.00x	3.00x ≤ n < 5.00x	5.00x ≤ n < 7.00x	≥ 7.00x	5%
3-Year Average of Moody's Adjusted Net Pension Liability/Full Value	< 0.90%	0.90% ≤ n < 2.10%	2.10% ≤ n < 4.80%	4.80% ≤ n < 12.00%	12.00% ≤ n < 18.00%	≥ 18.00%	5%
3-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues	< 0.40x	0.40x ≤ n < 0.80x	0.80x ≤ n < 3.60x	3.60x ≤ n < 6.00x	6.00x ≤ n < 8.40x	≥ 8.40x	5%

* Institutional Framework considers the issuer's ability to control and predict its revenues and expenditures, the legal framework surrounding the flexibility to increase revenues, and the services the entity is required to provide. Moody's assigns an institutional framework rating to similar groups of issuers and revisits it annually; all school districts in Georgia carry the same institutional framework score of Aa.



II. Summary of Moody's Assessment of APS' Credit



PFM's Preliminary Credit Assessment

- ◆ Atlanta Public Schools' credit position is very strong, coming in at "Aa2" by Moody's
- ◆ Economy & Tax Base: APS has a very strong tax base that is continuing to expand as well as a healthy wealth and income profile; hindering this are the above average poverty rates, reflecting the bipolar nature of the City of Atlanta's income distribution
- ◆ Finances: APS' fund balance is in line with Aa2 medians and peers; however, the cash balance falls below Aa2 medians and peers
- ◆ Management: APS is supported by conservative budgeting and formal balances; however, APS experienced several years of imbalanced operating results prior to revenues starting to exceed expenditures in FY2017
- ◆ Debt & Pension: APS has an extremely low debt burden, but fixed costs are still above average due to the elevated pension liability
- ◆ To justify an upgrade from Moody's, there would likely need to be improvements in the following areas (as explained in more detail throughout this document): Fund Balance, Cash Balances, Operating History, Pension Liability, and Poverty Rates & Income Distribution



Moody's Key Rating Considerations for APS

What could make the rating go up:	<ul style="list-style-type: none">- Reduction in fixed costs- Increased reserve and cash position
What could make the rating go down:	<ul style="list-style-type: none">- Deterioration of reserves and liquidity due to ongoing structural imbalance- Significant tax base reductions

Positives

Economy & Demographics

- Sizeable, diverse tax base and continuing to expand
- Benefit from the City's position as a trade and transportation center
- Strong per capita income

Financial Condition

- Average financial position
- Historically stable reserves, supported by conservative budgeting and formal policies
- Fund balance approximates the US median

Debt & Pension

- Low debt burden supported by the use of SPLOST proceeds for capital projects

Management

- Georgia School Districts have an Institutional Framework score of Aa, which is high compared to the nation
- Not subject to state cap of 20 mills

Negatives

Economy & Demographics

- Above average poverty rates – reflects the bipolar nature of the City's income distribution

Financial Condition

- Cash balance is slightly lower than the US median and declined from 2014 to 2018

Debt & Pension

- High unfunded pension liability
- Total fixed costs (debt service, pension ARC and OPEB ARC) are slightly above average

Management

- None



Indicated Rating	Weighted Score
Aaa	0.50 to 1.49
Aa1	1.50 to 1.82
Aa2	1.83 to 2.16
Aa3	2.17 to 2.49
A1	2.50 to 2.82

Summary of Moody's FY18 Scorecard for APS

Moody's Local Government Rating Scorecard									
	APS	Aaa	Aa	A	Baa	Ba	B and Below	Weight	Implied Rating
Economy/Tax Base									
Tax Base Size: Full Value	\$74.3B	> \$12B	\$12B ≥ n > \$1.4B	\$1.4B ≥ n > \$240M	\$240M ≥ n > \$120M	\$120M ≥ n > \$60M	≤ \$60.0M	10%	Aaa
Tax Base Per Capita	\$159,603	> \$150,000	\$150,000 ≥ n > \$65,000	\$65,000 ≥ n > \$35,000	\$35,000 ≥ n > \$20,000	\$20,000 ≥ n > \$10,000	≤ \$10,000	10%	Aaa
Median Family Income as % of US Median*	96.32%	> 150% of US median	150% to 90% of US median	90% to 75% of US median	75% to 50% of US median	50% to 40% of US median	≤ 40% of US median	10%	Aa
Finances									
Fund Balance as % of Revenues	19.85%	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 2.5%	2.5% ≥ n > 0.0%	0.0% ≥ n > -2.5%	≤ -2.5%	10%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	-4.92%	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%	Baa
Cash Balance as % of Revenues	22.55%	> 10.0%	10.0% ≥ n > 5.0%	5.0% ≥ n > 2.5%	2.5% ≥ n > 0.0%	0.0% ≥ n > -2.5%	≤ -2.5%	10%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-6.81%	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%	5%	Baa
Management									
Institutional Framework	Aa	Very Strong	Strong	Moderate	Limited	Poor	Very Poor	10%	Aa
Operating History: 5-Year Average of Operating Revenues/Operating Expenditures	0.99x	> 1.05x	1.05x ≥ n > 1.02x	1.02x ≥ n > 0.98x	0.98x ≥ n > 0.95x	0.95x ≥ n > 0.92x	≤ 0.92x	10%	A
Debt/Pensions									
Net Direct Debt/Full Value	0.11%	< 0.75%	0.75% ≤ n < 1.75%	1.75% ≤ n < 4.00%	4.00% ≤ n < 10.00%	10.00% ≤ n < 15.00%	≥ 15.00%	5%	Aaa
Net Direct Debt/Operating Revenues	0.09x	< 0.33x	0.33x ≤ n < 0.67x	0.67x ≤ n < 3.00x	3.00x ≤ n < 5.00x	5.00x ≤ n < 7.00x	≥ 7.00x	5%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability/Full Value	3.58%	< 0.90%	0.90% ≤ n < 2.10%	2.10% ≤ n < 4.80%	4.80% ≤ n < 12.00%	12.00% ≤ n < 18.00%	≥ 18.00%	5%	A
3-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues	3.12x	< 0.40x	0.40x ≤ n < 0.80x	0.80x ≤ n < 3.60x	3.60x ≤ n < 6.00x	6.00x ≤ n < 8.40x	≥ 8.40x	5%	A
								Indicated Score	2.00
								Indicated Rating	Aa2

*Assumes 2017 values; 2018 data is not yet available



Indicated Rating	Weighted Score
Aaa	0.50 to 1.49
Aa1	1.50 to 1.82
Aa2	1.83 to 2.16
Aa3	2.17 to 2.49
A1	2.50 to 2.82

Summary of Moody's FY18 Scorecard Weights for APS

Using FY18 results, APS' "weakest" metrics (those metrics with the highest weighted scores) fall under Median Family Income, Changes in Fund and Cash Balances, and Operating History.

Factors & Subfactors	Weight	FY 2018 Score ^{1,2}	FY 2018 Weighted Score	FY 2018 Rating Category
Factor 1: Economy/Tax Base	30%			
Full Value (market value of taxable property)	10%	0.50	0.05	Aaa
Full Value per Capita	10%	1.39	0.14	Aaa
Median Family Income	10%	2.39	0.24	Aa
Factor 2: Finances	30%			
Fund Balance as % of Operating Revenue	10%	1.84	0.18	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	5%	3.99	0.20	Baa
Cash Balance as % of Revenues	10%	0.50	0.05	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5%	4.18	0.21	Baa
Factor 3: Management	20%			
Institutional Framework	10%	2.00	0.20	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	10%	3.25	0.33	A
Factor 4: Debt/Pensions	20%			
Net Direct Debt / Full Value	5%	0.86	0.04	Aaa
Net Direct Debt / Operating Revenues	5%	0.79	0.04	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value	5%	3.05	0.15	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues	5%	3.33	0.17	A
Indicated Rating²	100%		2.00	Aa2

¹ Reflects PFM's estimate using a linear sliding scale.

² Indicated Rating is approximate and does not incorporate qualitative adjustments or notching factors.



Moody's Potential Notching/Below-the-Line Adjustments for APS

- ◆ Regional economic center (*positive*)
- ◆ Outsized poverty levels (*negative*)
- ◆ Heavy fixed costs, including contractually fixed costs such as pension payments (*negative*)
- ◆ Unusually rapid amortization of debt principal – gauged by the percentage of principal repaid within 10 years (*positive*)



Summary of APS' Key Credit Trends

How APS Compares				
		Five Year Trend (FY14 to FY18)	Relative to Medians of Selected Georgia Peers	Relative to Moody's Aaa-rated School District Medians
Economy	Full Value	Increasing	Consistent	Higher
	Full Value per Capita	Increasing	Consistent	Lower ²
	Median Family Income as % of US	Increasing	Lower	Lower
	% of Population Below Poverty Level	Decreasing	Higher	Higher
Financials	Available Op. Fund Balance as a % of Op. Revenues	Decreased from FY14 to FY18; increased from FY16 to FY18	Consistent	Lower
	Op. Cash Balance as a % of Op. Revenues	Decreased from FY14 to FY18; increased from FY17 to FY18	Lower	Lower
Debt & Pension	Debt as a % of Full Value	Consistent	Consistent	Lower
	Debt as a % of Op. Revenues	Decreasing	Consistent	Lower
	3 yr. Avg. ANPL ¹ as % of Full Value	Consistent	Consistent	Higher
	3 yr. Avg. ANPL as % of Op. Revenues	Increasing	Consistent	Higher

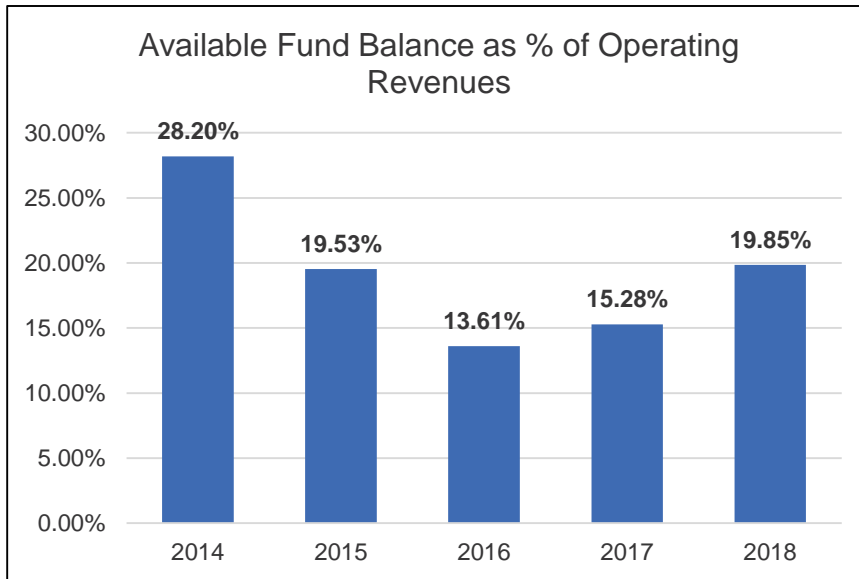
¹Moody's "Adjusted Net Pension Liability"

²APS' full value per capita is significantly lower than the Aaa-rated median; however, it is slightly higher than the Aa2-rated median

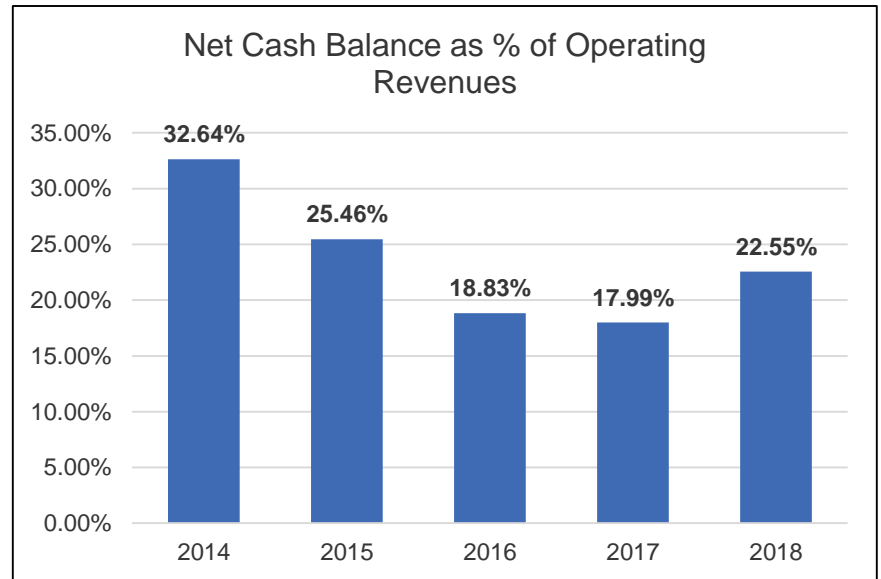


APS' Financial Data

Both the Fund Balances and Cash Balances have declined fairly significantly from FY2014 to FY2018; however, the Fund Balances have consistently been improving since FY2017 and the Cash Balance improved from FY2017 to FY2018 as well.



★ Potential for Improvement: All else remaining equal (assuming FY2018 audited results), APS would have to increase the operating fund balance by \$44.9MM to move this category to Aaa (> 25%); however, this improvement alone would not change the overall indicative score.

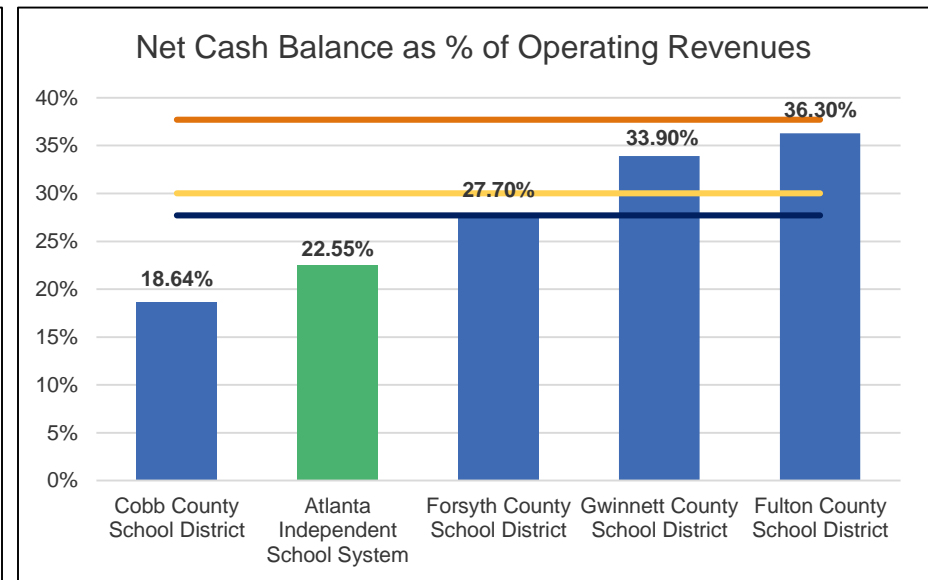
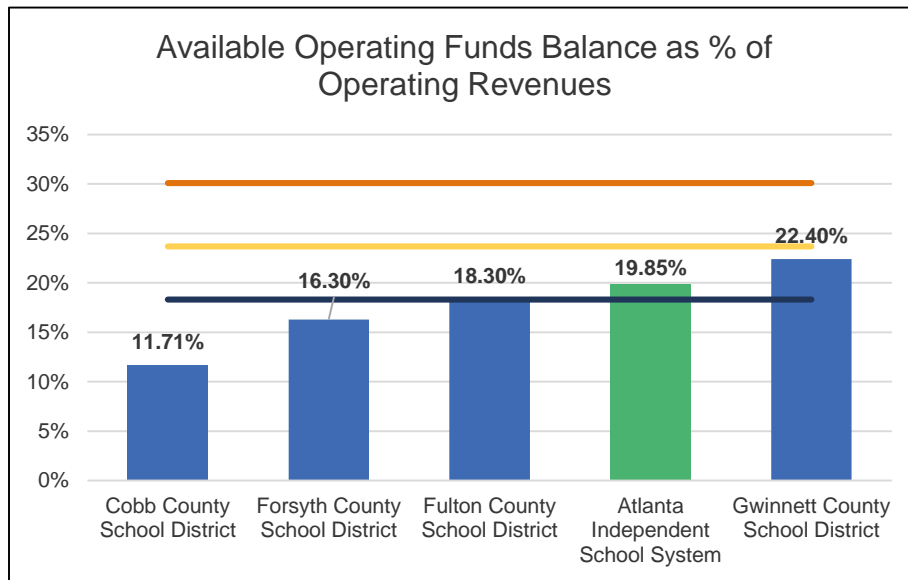


★ Potential for Improvement: While APS already falls into the Aaa category when looking at Cash Balance as a % of Operating Revenues, the 5YR change in cash balances falls in the Baa category. Assuming there is no decline in cash balances (and all else remaining equal) through FY2020, the score for this metric would move to the A category; however, this improvement alone would not change the overall indicative score.



APS' Financial Data – Relative to Peers

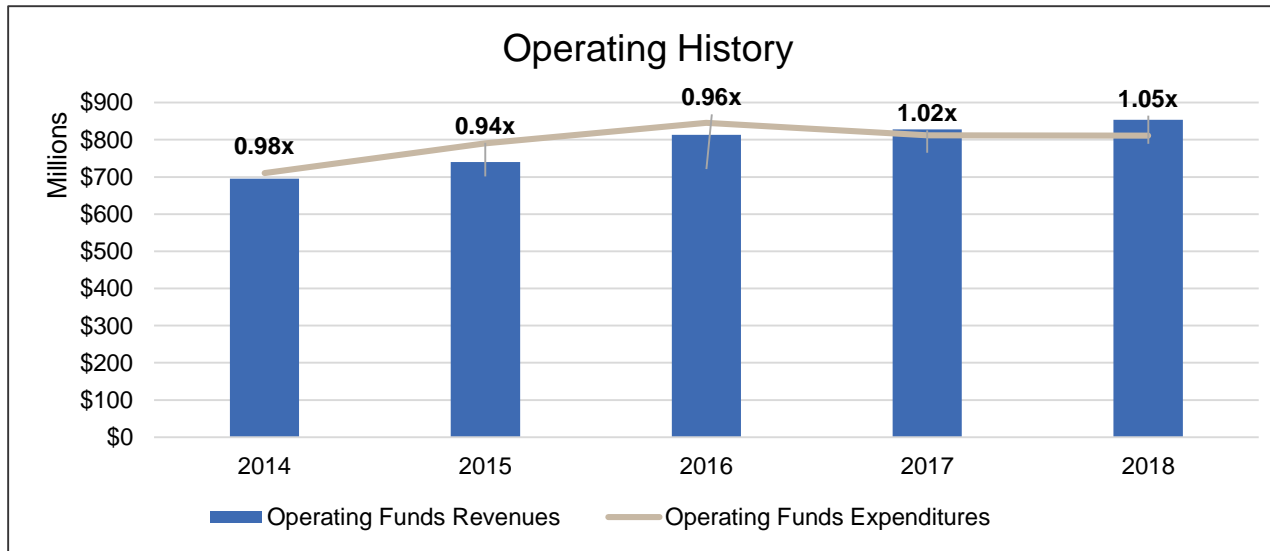
APS' Available Operating Fund Balance and Net Cash Balance levels are below those of national Aaa and Aa2 rated medians. APS' Fund Balance is in line with peers, while the Cash Balance is on the lower end when compared to Georgia peers.





APS' Management & Governance Data

If APS' operating metrics continue to trend similar to FY2017 and FY2018 results, this subcategory could move to Aa in the next two years.



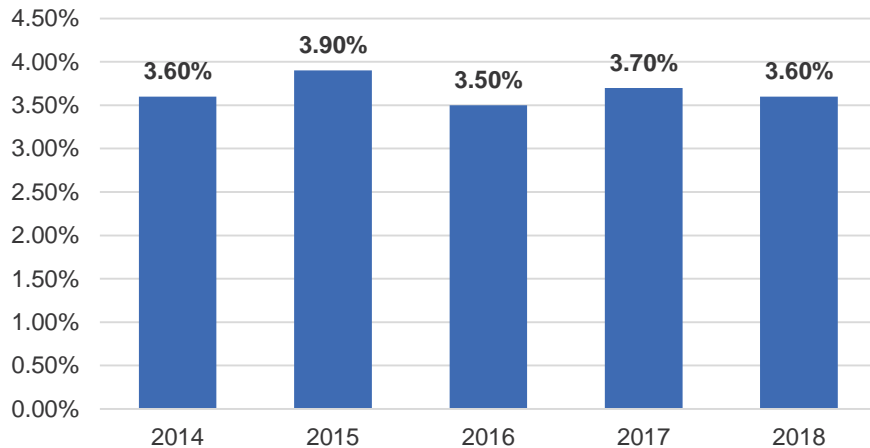
★ **Potential for Improvement:** Moody's uses the 5-year average of operating revenue divided by the 5-year average of operating expenditures to measure if a government is running a surplus, deficit, or balanced operations, on average. In FY2014 through FY2016, expenditures exceeded revenues. If APS' operating metrics continue to trend similar to FY2017 and FY2018 results, this subcategory could move to Aa in the next two years. Depending on how much revenues exceed expenditures over the next two years, improvement in this category could potentially change the overall indicative score.



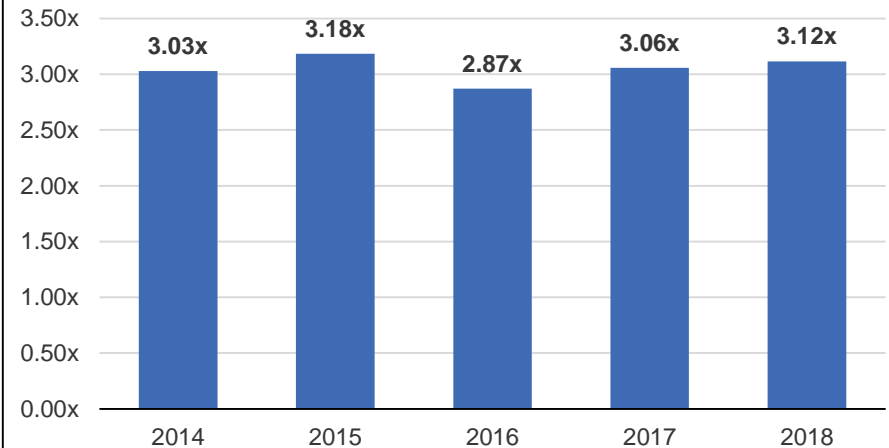
APS' Pension Data

APS' pension metrics have remained relatively stable when comparing FY2014 to FY2018.

3-Year Average of Moody's ANPL as % of Full Value



3-Year Average of Moody's ANPL/Operating Revenues



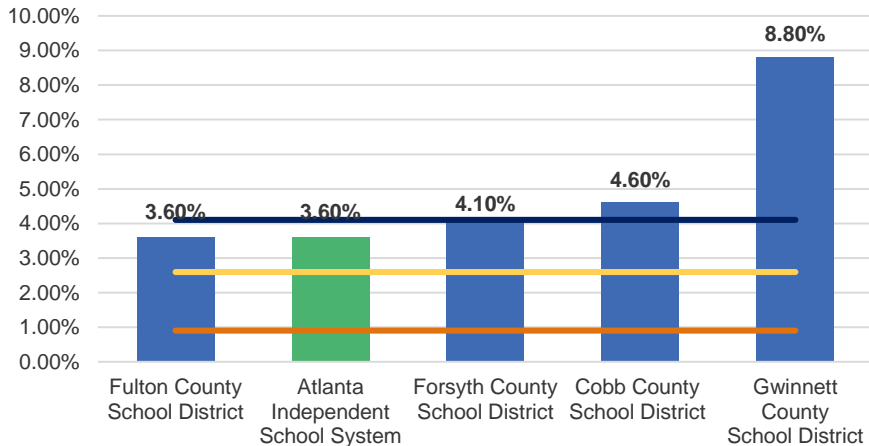
★ **Potential for Improvement:** APS' pension liability is high compared to national medians but in line with the levels of Georgia peers as this is more of State of Georgia issue rather than solely APS. Improvement to this category would likely required change at the State level; however, this metric warrants further discussion with APS staff.



APS' Pension Data – Relative to Peers

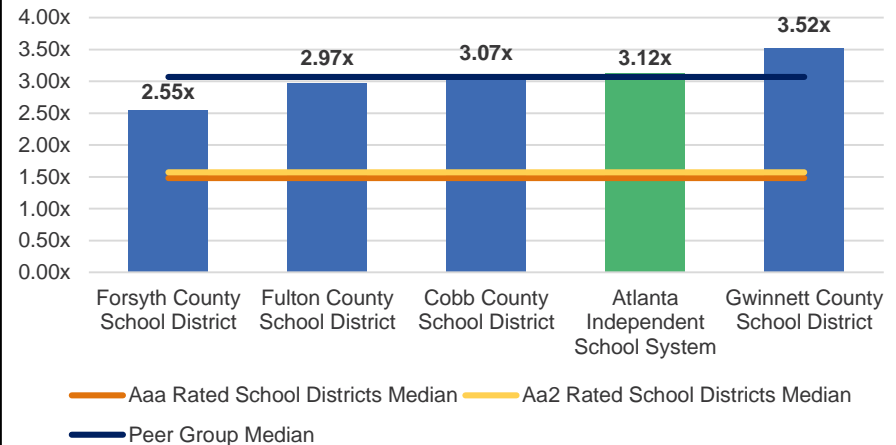
APS' ANPL metrics both well exceed national Aaa and Aa2 rated medians but are in line with or lower than Georgia peers.

3-Year Average of Moody's ANPL as % of Full Value



Aaa Rated School District Median – 0.9%
Aa2 Rated School District Median – 2.6%
Peer Group Median – 4.1%

3-Year Average of Moody's ANPL / Operating Revenues

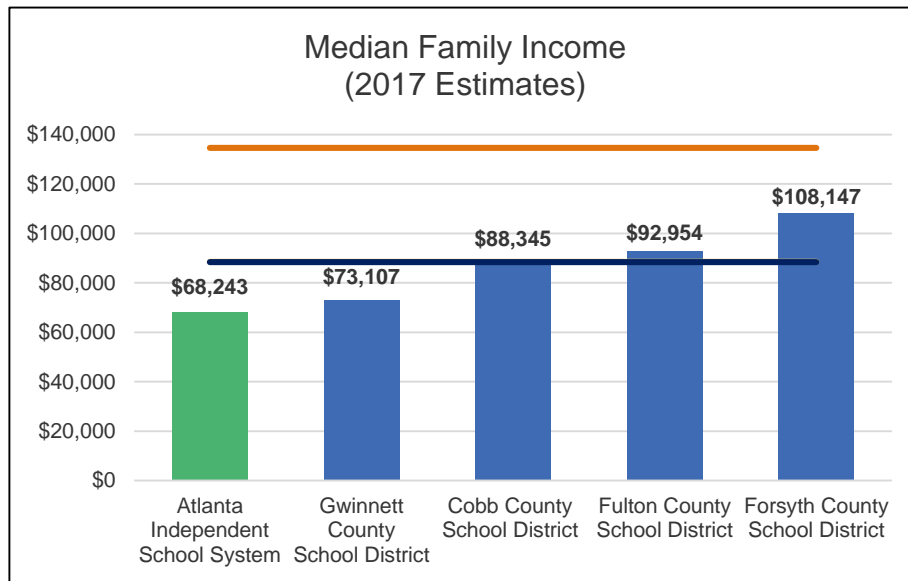


Aaa Rated School District Median – 1.48x
Aa2 Rated School District Median – 1.57x
Peer Group Median – 3.07x

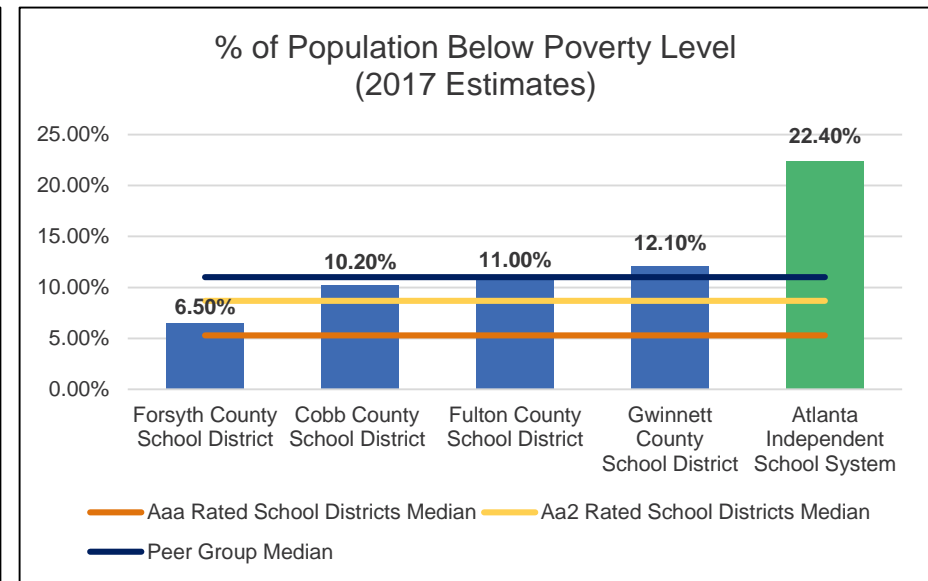


APS' Wealth & Income Data – Relative to Peers

APS' Median Family income is significantly lower than national and peer medians while the percentage of Atlanta's population that is below the poverty level well exceeds national and peer medians.



Aaa Rated School District Median – \$135k
Aa2 Rated School District Median – \$89k
Peer Group Median – \$88k



Aaa Rated School District Median – 5.3%
Aa2 Rated School District Median – 8.7%
Peer Group Median – 11.0%

★ **Potential for Improvement:** APS has significantly less direct control over this area than most of the ones mentioned previously; but while improvements in the other areas may help APS get upgraded to a Aa1 rating, the severity of the income inequality may ultimately prevent APS from obtaining a Aaa rating.



Roadmap to Potential Upgrade of Moody's Credit Rating

Financial

- Increase the available operating funds balance and net cash balance to a level at least consistent with Aa2 medians
- Show more than one year of increases to cash balance (currently only from FY17 to FY18)

Debt & Pension

- No material increase in debt burden
- Shrink, or somewhat stabilize, the pension liability and fixed costs

Management

- Comply with existing financial policies
- Maintain structurally balanced budgets

Economy

- Decline in poverty rates
- Lessen income inequality gap



III. Appendix



Georgia Peer Group

Georgia Peers	Current GO Ratings (Moody's/S&P/Fitch)	Enrollment	Total General Fund Revenues (\$000)	Total Full Value (\$000)*
Forsyth County School District	Aaa / AA+ / -	48,149	\$413,875	\$30,238,555
Atlanta Public Schools	Aa2 / AA / -	52,147	\$750,605	\$74,252,957
Fulton County School District	Aaa / AA+ / -	94,491	\$981,365	\$96,204,812
Cobb County School District	Aaa / - / -	111,482	\$1,053,420	\$80,056,986
Gwinnett County School District	Aaa / AAA / -	179,266	\$1,647,204	\$75,278,516



WRAP UP AND NEXT STEPS

Next Commission Meeting:
February 20, 2020

Agenda:

- Legislative update,
Compensation strategy,
& Budget Primer