

RatingsDirect®

Summary:

Olmsted Falls City School District, Ohio; General Obligation; School State Program

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Summary:

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(Editor's Note: The series 2017 \$21.9 million issuance has been broken into two different series. The series 2017-A (\$20 million) will be in the state intercept program, and the series 2017-B (\$1.9 million) will not be part of the state enhancement program. Hence the series 2017 A will have our 'AA' long-term rating (based on the state enhancement program) and our 'AA-' underlying rating for credit program, and the series 2017-B will be rated 'AA-'.)

Credit Profile

US\$20.0 mil GO (unltd tax) sch imp bnds ser 2017A due 12/01/2036

Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New

Olmsted Falls City Sch Dist SCHSTPR

Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Upgraded

Olmsted Falls City Sch Dist GO

Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has raised its underlying rating for credit program on Olmsted Falls City School District, Ohio's existing general obligation (GO) bonds to 'AA-' from 'A+'. At the same time, S&P Global Ratings has assigned its 'AA' long-term rating and its 'AA-' underlying rating for credit program to the district's series 2017 general obligation (GO) school improvement bonds. The outlook for both ratings is stable.

The upgrade reflects the district's strong general fund performance, which has built and maintained reserves to a level we feel is very strong as well as its ability to manage its levy cycle, which included a November 2016 voter approval of a bond and permanent improvement levy.

The series 2017 bonds are secured by a pledge of the district's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limit to rate or amount secures the bonds. It is our understanding that bond proceeds will be used to finance the constructing, furnishing, and otherwise improving school district buildings.

The long-term rating reflects the district's eligibility for, and participation in, the Ohio State Aid Intercept credit enhancement program. The program provides school bonds with added security from a state aid withholding mechanism that has statutory provisions we consider strong. Upon state approval, the agreement between the state and local school district for program participation is irrevocable as long as any program debt is outstanding.

The rating reflects our opinion of the district's:

- Access to the greater Cleveland area economy and employment base;
- Good to strong income levels and strong market value per capita;
- Very strong general fund reserves on a generally accepted accounting principles (GAAP) basis; and
- Low overall debt levels.

While we believe the district's good to strong economic indicators and strong market value per capita are credit strengths, we also believe that these indicators do not compare well with higher rated peers and as such would be a limiting credit consideration. In addition, we view the slow amortization as a limiting credit consideration.

Economy

Olmsted Falls City School District encompasses approximately 16 square miles primarily in Cuyahoga County that serves 25,555 people and is located approximately 15 miles southwest of Cleveland. The district serves as the largest employer in the local area while residents have employment opportunities throughout Cuyahoga County and nearby Cleveland metro area. The average unemployment rate for Cuyahoga County was 5% in 2015, which was slightly higher than the state average of 4.9% and slightly lower than the national average of 5.3% for the same period.

In our opinion, per capita effective buying income (EBI) is good at 110% of the national level, while median household EBI is strong at 119%. The district's total \$1.47 billion market value in 2016 is strong, in our view, at \$57,434 per capita. From 2013 to 2016 (the latest year available), taxable value had increased by a total of 4.5% to \$519.3 million. The 10 largest taxpayers make up an estimated 9.9% of taxable value, which we consider very diverse. Officials are expecting at least flat taxable values, if not small increases for fiscal 2017 and for the next sexennial update for the 2018-2019 year.

Finances

School districts in Ohio are reliant on a combination of property tax and state-shared revenue. The formula for state-shared revenue has undergone changes in recent years, but in general is based on per-pupil enrollment. Therefore, because enrollment has a direct impact on revenue, we view it as an important credit factor.

Overall enrollment has been relatively stable with periods of slight increases and decreases over the past decade. The number of average daily membership (ADM) fell 1.6% in fiscal 2017 to 3,666 from 3,727 the year before. Management is expecting enrollment to increase over the next five years as it recently has added all-day kindergarten as well as this bond issue, which will improve the facilities. The district does not accept open enrollment students.

The district's general fund performance has been very strong as the general fund will have posted six consecutive surpluses on a generally accepted accounting principles (GAAP) basis once the 2016 audit is completed and public. The district has added to and maintained its very strong reserve base. As of the last audit--June 30, 2015--the district's reserves were very strong as evidenced by available reserves that equaled 28% of operating expenditures. (The 2016 results are expected to be nearly 34% of operating expenditures). Management attributes the positive results to what they feel is conservative budgeting practices, various cost savings and increases in state aid.

The district's current October 2016 five-year forecast (cash basis) indicates a use of cash beginning in fiscal 2017 and continuing through fiscal 2021 with a negative cash position projected by 2021. This forecast did not include the additional revenue through increased permanent improvement revenues which voters approved in November 2016--if those figures are added in the ultimate negative cash balance lessens by fiscal 2021. Results for fiscal 2017 are

projected to be a deficit of about \$765,000 which if recognized would decrease the ending cash balance to nearly \$10.1 million (after encumbrances), or 22.5% of operating expenditures, which we consider strong.

While the forecast shows deterioration in fund balance reserves over the next five years, which could weaken the rating on the district, we have witnessed better actual results than those projected by the district in earlier five-year forecasts. Specifically when we reviewed the district in May 2015, the October 2014 forecast had predicted a deficit of \$3.3 million for fiscal 2016 and a deficit of \$5.1 million for 2017. In addition, there was a projection of a negative cash balance by 2018. The October 2016 forecast indicates a surplus of \$562,000 for 2016, and 2017 is now projected to have a deficit of \$755,000, with the negative cash position pushed back one year to 2021. We will continue to monitor the school's forecast and performance to determine if the projected decline in reserves points to weaker credit quality or conservative budgeting practices. To date, we have witnessed conservative budgeting practices.

A large portion of school property tax levies in Ohio are based on a revenue level, rather than a rate that fluctuates with assessed value. This creates what is known as the levy cycle, such that districts must often seek voter approval for new levies as revenue becomes insufficient to match rising costs. As such, voter support is usually a key factor in the maintenance of strong district finances.

In our opinion, voter support has been mixed with a fair number of bond and operating levies turned away by the residents of the district. However in November 2016, residents--by a nearly 60% passage rate--approved a bond issuance as well as a permanent improvement (PI) levy that is continuing. The district had a five year PI levy--which was higher than the current levy--which it let expire and ultimately the residents will have a lower tax rate with additional relief in the near future as debt rolling off will again lower the tax rate for residents. The district has not approached its residents for an operating levy since 2010 and currently has no plans to ask for any new operating money for at least the next four years.

The district's available fund balance of \$10.8 million is very strong in our view, at 28% of general fund expenditures at fiscal year-end 2015. The district reported a surplus operating result of 4.5% of expenditures and transfers out in 2015. The district depends primarily on property taxes for general fund revenue (56%), followed by state aid (39%). We expect these revenue streams to remain stable over the next few years.

Management

We consider Olmsted Falls City School District's financial management practices good under its Financial Management Assessment (FMA) methodology. An FMA of good indicates our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Under state guidelines, the district formally updates its five-year forecast twice a year and uses historical trend analysis and various outside sources for revenue and expenditure assumptions. In our opinion, both revenue and expenditure assumptions are conservative. Management provides monthly reports to the board on budget-to-actual results and investment holdings and earnings, and the board can amend the budget as needed. In 2013, the district had developed a five-year capital plan that coincided with the permanent improvement levy and had a list of projects and checked off those that were completed. Now that there is a new continuing levy management has indicated it will create a new plan. The district has its own investment policy and updates the board on a monthly basis on the holdings and the performance of those holdings. There is no formal debt policy but the district adheres to the state guidelines. The district recently adopted a

formal cash reserve policy that requires the district to hold at least two months of operating expenditures so as to avoid any revenue shortfalls or unexpected increases in expenditures.

Debt

Overall net debt is 2.7% of market value and \$1,544 per capita, which we believe to be low. With 27% of the district's direct debt scheduled to be retired within 10 years, amortization is materially slower than average. Debt service carrying charges were 4.7% of total governmental fund expenditures excluding capital outlay in fiscal 2015, which we consider low. Management has confirmed it has no alternative financings. It is our understanding the district has no future debt plans.

The district participates in the School Employees Retirement System (SERS) of Ohio and the State Teachers Retirement System of Ohio (STRS), which are cost-sharing, multiple-employer defined-benefit pension plans, and provides other postemployment benefits (OPEB). The district paid its full required contribution of \$3 million toward its pension obligations in fiscal 2015, or 6.7% of total governmental expenditures. The district also contributed \$348,000, or 0.7% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2015. Combined pension and OPEB carrying charges totaled 7.4% of total governmental fund expenditures in 2015. We don't expect pension and OPEB liabilities to become a budgetary pressure over the next two years.

Per Government Accounting Standards Board (GASB) 68 standards--which the district implemented for its financial statements ended June 30, 2015--employers with benefits administered through cost-sharing multiple-employer pension plans such as MPERS must report their proportionate share of the net pension liability. The district's proportion of the net SERS and STRS liability as of the most recent actuarial valuation was \$10.2 million or 0.20% and \$39.2 million or 0.16%, respectively. The district's proportionate share of the net pension liability is based on statutory required contributions in relation to all reporting units' statutorily required contributions for the measurement period.

Outlook

The stable outlook on the long-term rating reflects S&P Global Ratings' assessment of the strength of the state aid intercept structure and the rating moves in tandem with the state GO rating.

The stable outlook on the underlying rating for credit program reflects our expectation that the district will continue to maintain its very strong reserve position and low debt profile as such we don't expect the rating to change during the two-year outlook period.

Downside scenario

A lower rating is possible if the general fund performance were to materially deteriorate and negatively affect the district's reserves or if the debt profile were to deteriorate to a level we feel is no longer commensurate with similarly rated peers.

Upside scenario

A higher rating is possible if the wealth and income levels in the district were to improve to a level we feel is commensurate with higher rated peers and the district's debt amortization materially improves.

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