FITCH AFFIRMS TOLEDO CITY SCHOOLS (OH)'S IDR AND ULTGO BONDS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-03 August 2016: Fitch Ratings Affirms the following Toledo City Schools, Ohio ratings at 'A-':

--$2.3 million (excluding refunded maturities) unlimited tax general obligation (ULTGO) bonds, series 2009;
--Issuer Default Rating (IDR).

The Rating Outlook is Stable.

SECURITY
The bonds are a general obligation of the district, payable from an ad valorem tax on all taxable property within the district, unlimited as to rate or amount.

The bonds qualify for the Ohio School District Credit Enhancement Program, which is rated 'AA' by Fitch.

KEY RATING DRIVERS

The 'A-' rating reflects the district's limited revenue raising flexibility, adequate ability to cut expenditures, moderate long-term liability burden and limited gap-closing ability during times of economic recovery.

Economic Resource Base
The district covers 72 square miles in Lucas County in northwestern Ohio, approximately 75 miles east of the Indiana border and within five miles of the Michigan border. The district's population decreased approximately 10% since 2005 to 281,031 in 2015, affected by the decline of a large manufacturing presence. School district enrollment is down approximately 12% since 2010 but saw a modest increase of 2% in 2015 from the prior year. Fitch expects enrollment to continue to see modest positive gains in the near term due to new pre-school programs.

Revenue Framework: 'bbb' factor assessment
Revenue growth is expected to remain stagnant. Changes to the state aid formula, along with some gains in enrollment may drive modest future revenue gains. The district's independent ability to raise revenues is restricted by state legal parameters.

Expenditure Framework: 'a' factor assessment
Flexibility of main expenditure items is adequate and may result in manageable cuts to core services during an economic downturn. Fitch believes the natural pace of spending growth is above expected revenue growth.

Long-Term Liability Burden: 'aa' factor assessment
The combined liability burden of overall debt and unfunded pension liabilities is moderate in relation to the district's resource base.

Operating Performance: 'bbb' factor assessment

Fitch believes the district has limited gap-closing ability. Voter support for new and renewal levies has been inconsistent, which could result in stressed operations in an economic downturn as it has in the past.

RATING SENSITIVITIES

ENROLLMENT CHANGES: Enrollment declines and increases in charter school competition may decrease state aid available for district operations and negatively pressure the rating.

VOTER SUPPORT: Continued voter support for new and renewal levies is key to financial stability. Changes in patterns of voter support could shift the rating.

CREDIT PROFILE

The district's territory adjoins Lake Erie and encompasses approximately 70% of the city of Toledo, 66% of Spencer Township, 8% of Harding Township and less than 1% of the Village of Ottawa Hills. The local economy is driven mostly by manufacturing with a concentration in the automotive industry complemented by the healthcare and university sectors. The city of Toledo reported unemployment of 5.1% in May 2016, which is down slightly from 5.6% the prior year, but remains higher than both the state and the nation. Income levels are below average both on a median household and per capita basis and 2014 poverty rates were nearly double those of the state.

Taxable assessed value (TAV) appears to have stabilized after a sharp, cumulative 32% decline since the 2007 peak. The 2015 triennial adjustment resulted in a modest 0.55% decrease in values. For 2016, the County Auditor's office anticipates that residential property values will remain level, which Fitch believes is achievable. Leading taxpayers are diverse and include a casino, several utilities and large real estate holdings.

Revenue Framework

Ohio school districts operate within a restrictive revenue environment. Revenue growth prospects are slow and the legal ability to raise revenues is limited. State aid, comprises 70% of general fund revenues. Outside mills, levied on a fixed rate and fixed dollar basis, account for 24% of general fund revenues.

The district expects state aid to increase approximately 6% in 2016 and conservatively estimates it to grow an additional 3% in 2017. The district is competing with both charter schools and other districts (through open enrollment) for per-pupil funding. Nevertheless, enrollment modestly increased last year due to headstart programs that transition children into the elementary public school system without the option to transfer to charters. The program will add another 340 students, or 1.5% of total enrollment, to the public school system. Management expects the attraction and retention of students, along with funding adjustments made to special education and career technology programs to positively impact state-aid revenue growth. Nevertheless, Fitch assumes that revenues will modestly increase below the level of inflation.

Management expects ad-valorem tax revenues to remain flat, which Fitch believes is reasonable, given AV trends and the limited ability for the property tax millages to capture economic growth.

Fixed rate millage can capture economic growth from new construction. However, fixed rate levies on existing property are subject to rate roll-back provisions during times of revaluation that prevent the district from receiving revenues in excess of the prior year. Fixed rate levies comprise approximately 18% of general fund revenues.

Fixed dollar levies do not capture AV growth and account for 6% of general fund revenues.

State law limits school districts' ability to raise revenues without going to voters, to fees, charges, and other locally controlled revenues. However, districts like Toledo that have a high percentage of economically disadvantaged students in attendance are prevented from raising these charges.

Income and property tax 'outside millage' levies require voter approval. The district's outside millage is comprised of both a continuing and renewal levies. Renewal levies are exposed to voter-renewal risk every five to 10 years. Outside mill renewal risk accounts for 8.6% of general fund revenues.

Expenditure Framework
Staff salaries are the largest expenditure item, comprising approximately 68% of general fund spending.

The district is at risk for the pace of spending growth to exceed the expected pace of revenue growth without active control of expenditures.

However, expenditure flexibility is adequate. Fiscal 2015 carrying costs for debt and pension, and other-post employment benefits (OPEB) are low at 7.9%. Carrying costs modestly declined from prior years, due to reductions in OPEB actuarially required contributions and increased governmental expenditures.

Charter school spending currently comprises a high 28% of general fund expenditures. The district may be able to limit the impact of charter school spending on its budget if it is able to attract new students. Discretionary spending was reduced by 25% for the district's 2016 cash budget, which limits future opportunities for cost savings.

Current labor contracts are in place for a one-year term. After expiration, the district and unions will participate in an interest-based bargaining process requiring all parties to jointly agree on bargaining topics. The district anticipates that the process will provide for fiscally manageable negotiation terms.

Long-Term Liability Burden
The district has a moderate long-term liability burden, with overall debt and unfunded pensions at 11% of personal income. Direct debt levels (17% of total long-term liabilities) are expected to decline as the district does not plan to issue new debt in the near term and 50% of debt is scheduled to be retired within the next 10 years. Unfunded pension burden comprises approximately 63% long-term liabilities. The plan's weak actuarial funding levels may cause the district's unfunded pension liability to increase.

Pension and OPEB are provided through two state sponsored defined benefit pension plans, the Ohio School Employees Retirement System (OSERS) and the Ohio State Teachers Retirement System (OSTRS). When combined, the plans reported assets to liabilities ratio is 74.2% assuming a 7.75% rate of return, as of Dec. 31, 2014. Using Fitch's more conservative 7% rate of return the estimated assets to liabilities ratio is 68.5%.

Operating Performance
Financial resilience is adequate. Fitch assesses the district's inherent budget flexibility at 'midrange' due to the limited legal ability to raise revenues accompanied by solid expenditure flexibility. Financial resilience through economic downturns has been pressured by poor support for new voter-approved levies. For example, the district passed new operating levies in 2014 which were the first new levies to receive voter-approval since 2008, with three failed attempts in between. During this same period fund balances fell to a deficit position and did not regain positive balances until the passage of the 2014 levy. Operations could experience additional stress if future levies do

not receive voter approval, causing a delay in gap-closing measures and further reduction of fund balance. Current unrestricted general fund reserves total 12.3% of spending.

Management adheres to the common Ohio school district budgeting practice of exhausting reserves before a new tax levy is submitted for voter approval or other policy action is taken to replenish fund balances. While the district follows this budgeting cycle, management has proactively built in some additional cushion in preparation for times of economic distress. This includes restricting $6.6 million of 2015 operating surplus to a general fund reserve account (approximately 2% of general fund expenditures) and the option to use budgeted pay-go capital expenditures for general fund operations.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=879478