FITCH AFFIRMS TOLEDO CITY SCHOOLS, OH'S ULTGO BONDS AT 'A-'; OUTLOOK STABLE

Fitch Ratings-New York-26 February 2016: Fitch Ratings has affirmed Toledo City Schools, Ohio's (the district) general obligation unlimited tax (ULTGO) bonds as follows:

--$2.3 million (excluding refunded maturities) ULTGO bonds, series 2009 at 'A-'.

The Rating Outlook Stable.

SECURITY

The bonds are a voted general obligation of the district, secured by an unlimited ad valorem tax.

The bonds are also payable by the Ohio School District Credit Enhancement Program which is rated 'AA' by Fitch.

KEY RATING DRIVERS

ENROLLMENT GROWTH; RELIANCE ON STATE AID: The district is highly dependent upon state aid, which provides 70% of operating revenues. The interplay of recent enrollment growth and changes in the state aid formula has benefitted the district.

DEPENDENCE ON VOTERS: Revenue-raising ability largely depends on voter approval from constituents who have repeatedly voted down new revenue-raising initiatives but generally have been supportive of renewal levies.

POSITIVE OPERATIONS; HEALTHY RESERVES: Consecutive annual operating surpluses after transfers have spurred the restoration of reserves.

BELOW-AVERAGE ECONOMIC INDICATORS: Elevated unemployment, low wealth indices, and a high poverty rate reflect the depressed condition of the area economy.

MANAGEABLE LONG-TERM LIABILITY PROFILE: Debt levels are low on a per capita basis and moderate when measured against market value. Carrying costs for debt service, pension and other post-employment benefits (OPEB) should remain affordable even if pension contributions rise in an effort to improve the state plans' funding levels.

RATING SENSITIVITIES
STATE AID DEPENDENCE: The district is vulnerable to changes in state aid, which are dependent on enrollment fluctuations and the number of charter schools in the district. Enrollment declines and increases in charter school competition may decrease state aid and negatively pressure the rating.

VOTER SUPPORT OF SCHOOL DISTRICT LEVIES: 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 covers 72 square miles in Lucas County in northwestern Ohio, approximately 75 miles east of the Indiana border and within 5 miles of the Michigan border. 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 district's population declined 2.2% since 2010 to 281,031 in 2014, affected by the cyclicality of a large manufacturing presence.

ENROLLMENT GROWTH AND INCREASED STATE AID

The district matriculated 22,445 students in grades K through 12 in 2016, a 2.6% increase from 2014, and is projecting a 1.5% increase for the 2017 school year. A concerted effort by the district to maintain headcount, by attracting students back from charter schools and retaining students from the newly absorbed head start program, reversed an over 20-year trend of enrollment declines.

State aid revenues are linked to enrollment numbers and the presence of charter schools in the district. Financial benefits are somewhat curtailed as the district is required to transfer a state determined percentage (30% in 2015) to charter schools. .

RESTORATION OF BUDGETARY BALANCE

The district has rebuilt reserves in recent years, with a fiscal 2015 $15.4 million net general fund operating surplus after transfers (4.7% of spending) contributing to an unrestricted general fund balance equivalent to 12.3% of spending. Financial operations have improved notably from early in the decade, when two years of large net operating deficits culminated in an accumulated general fund deficit of $26.4 million (8% of spending) in fiscal 2010. Positive performance was due in part to expenditure cuts, enrollment retention, and implementation of management efficiencies.

The district projects recording a net general fund operating surplus of approximately $3 million (cash basis) in fiscal 2016. Management's projections exclude an additional $6 million in settled Medicaid claims from 2012, which should further bolster positive operating results on a cash basis. Fitch expects positive year-end results on a GAAP basis.

The district's five-year cash-basis forecast projects positive cash balances into 2019, with cash deficits not reported until 2020. On a GAAP basis, Fitch expects the district to maintain positive operating performance and adequate general fund reserves.

Expenditure assumptions in the district's five-year forecast are conservative and revenue assumptions do not include the need for renewal levies until 2018. Failure to obtain new levy revenues (which Fitch believes will be more challenging) or significant expenditure reductions would pressure the district's ability to maintain budgetary balance and maintain financial reserves.

LOCAL ECONOMY REMAINS WEAK WITH SOME SIGNS OF IMPROVEMENT

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 5.5% in December 2015 which is down slightly from 5.8% the prior year, but remains higher than both the state and the nation. Wealth levels are below average both on a median household income basis and on a per capita personal income basis and 2014 poverty rates were nearly double those of the state.

Taxable assessed value (TAV) appears to have stabilized after sharp, cumulative 32% declines 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. Fitch will monitor any changes in TAV that may occur in the upcoming sexennial reappraisal in 2018. Leading taxpayers are diverse and include a casino, several utilities and large real estate holdings.

Property tax collections have remained weak at around 85% on a current basis for the past four years through 2015. Fiscal 2014 collections were nearly 95% due to delinquency collections and large commercial refunds decreasing.

MANAGEABLE LONG-TERM LIABILITIES

The district's overall debt burden is low on a per capita basis at $1,207 but more moderate when compared to the tax base, at 4.3% of full value. Principal amortization is moderate with approximately 58% of total principal retired within 10 years. The district has limited future capital needs.

Pension benefits and other post-employment benefits (OPEB) are provided through two state-sponsored cost-sharing multiple-employer defined benefit pension plans, the Ohio School Employees Retirement System (OSERS) and the Ohio State Teacher Retirement System (OSTRS). Using GASB 68 reporting, the district's portion of the plans' assets-to-liabilities ratio is 74.2% as of June 30, 2014. Using Fitch's more conservative 7% rate of return, the estimated ratio is 68.5%. The district continues to fund 100% of its contractually required contribution, which differs from the plans actuarially determined contributions (ADC). The district contributed 92.7% of ADC in Fiscal 2014.

Carrying costs for debt service, pension ADC, and OPEB amounted to a low 8.4% of governmental fund spending in 2015. Other post-employment benefits (OPEB) are provided through the two state-run pension programs and are funded on a pay-go basis.

STRONG PROGRAM ESSENTIALS

The district's bonds also benefit from participation in the Ohio School District Credit Enhancement Program, which is rated 'AA' by Fitch. Program requirements are stringent including 2.5x coverage of maximum annual debt service (MADS) by unrestricted state foundation aid on proposed bonds and any outstanding obligations covered by the program. Fiscal 2016 estimated state foundation aid to the district is 15.7x MADS, well above the required 2.5x.

Program mechanics are strong. State law required the Ohio Department of Education to intercept state foundation payments due to a participating school district should the district fail to transmit payments to cover the required debt service. The Department of Education then forwards the payments to a bond paying agent or registrar. For more information on the Ohio School District Credit Enhancement Program, see Fitch's report dated April 21, 2015 available at www.fitchratings.com.

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Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the first quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875108
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314