MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A2 underlying and Aa2 enhanced (OSDCE) to Toledo CSD, OH's $21.99M GO Ref. Bonds, Ser. 2015; outlook stable

Global Credit Research - 02 Dec 2015

A2 underlying rating applies to $134.1M of outstanding GO debt

TOLEDO CITY SCHOOL DISTRICT, OH
Public K-12 School Districts
OH

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
General Obligation (Unlimited Tax) School Facilities Improvement Refunding Bonds, Series 2015	A2	Aa2

Sale Amount	$21,995,000
Expected Sale Date	12/09/15
Rating Description	General Obligation

Moody's Outlook STA

NEW YORK, December 02, 2015 --Moody's Investors Service has assigned an A2 underlying and Aa2 enhanced rating to Toledo City School District, OH's $21.99 million General Obligation (Unlimited Tax) School Facilities Improvement Refunding Bonds, Series 2015. Concurrently, Moody's maintains the A2 underlying rating on the district's outstanding general obligation (GO) debt. Post-sale, the district will have $134.1 million in outstanding general obligation unlimited tax (GOULT) debt. The outlook is stable.

SUMMARY RATING RATIONALE

The A2 underlying rating incorporates the district's challenged economic and demographic environment as indicated by above average unemployment, a negative population trend, and a multi-year trend of tax base depreciation. The rating also reflects sound financial management that has increased reserves over the past several years, as well as expected further improvement in liquidity in the current year following growth in state aid and property tax revenue. Lastly, the rating encompasses the district's moderate debt burden and exposure to unfunded liabilities of two cost-sharing retirement plans.

The Aa2 enhanced rating assigned to the Series 2015 bonds is based on the Ohio School District Credit Enhancement (OSDCE) programmatic rating, which is Aa2 and carries a stable outlook. The programmatic rating is notched once from the State of Ohio's Aa1 GO rating and carries a stable outlook in keeping with the outlook on the state's GO debt. The programmatic rating is based on the strength of the program structure, including timing of debt service payments and debt service coverage requirements. The enhanced rating assigned to these bonds is also based on satisfactory coverage of maximum annual debt service (MADS) provided by the district's interceptable state aid revenue, which the Ohio Office of Budget and Management (OBM) estimates at 10.17 times.

OUTLOOK

The stable outlook on the underlying rating indicates that, notwithstanding likely continuance of economic challenges, we expect solid fiscal management, maintenance of adequate reserves, and moderate leverage will lend stability to the district's underlying credit profile.

The stable outlook on the OSDCE programmatic rating is in keeping with the stable outlook on the state's GO debt.

WHAT COULD MAKE THE RATING GO UP

-Strengthening of the district's economic and demographic profile as indicated by improved labor market characteristics, population trends or resident income levels

-Continuation of solid fiscal management that drives positive operating variances and growth in financial reserves

-Upward movement in the state of Ohio's GO rating (enhanced)

WHAT COULD MAKE THE RATING GO DOWN

-Sustained tax base depreciation or a weakened socioeconomic profile

-Narrowing of the district's financial reserves

-Additional leveraging of the tax base and increased fixed costs

-Downward movement in the state of Ohio's GO rating (enhanced)

-Weakening of OSDCE program mechanics (enhanced)

STRENGTHS

-Solid fiscal management that has demonstrated the willingness and capacity to reduce expenditures and implement new operating revenues in order to maintain healthy financial operations

-State funding increase effective for fiscal years 2016 and 2017 provides additional near-term stability to financial operations

-Moderate direct debt burden with no plans to issue additional debt in the coming years

CHALLENGES

-Challenged economic and demographic profile evidenced by above average unemployment, declines in population and labor force, and a cumulative 37% decline in full tax base valuation since 2008

-Exposure to two underfunded cost-sharing retirement plans that raises long-term operating risks tied to potential increases in contributions

RECENT DEVELOPMENTS

Since our last report on April 28, 2014, the district closed fiscals 2014 and 2015 with operating surpluses, significantly improving its General Fund cash balance. Fiscal 2015 audited financial statements are not yet available; however, the district's 5 year financial forecast indicates that the General Fund cash balance grew to $54 million, or a satisfactory 16% of revenues. On November 4, 2014, district voters authorized a new five-year 5.8 mill property tax levy (4.3 mills for current expenses and 1.5 mills for permanent improvements), which will generate approximately $13.2 million annually. Other recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ENHANCEMENT PROGRAM MECHANICS: OHIO SCHOOL DISTRICT CREDIT ENHANCEMENT PROGRAM CHARACTERIZED BY STRONG PROGRAM MECHANICS

The OSDCE programmatic rating is based on Moody's assessment of the overall mechanics of the program, as defined in the statute as of July 16, 2008, and rated one notch below the State of Ohio's GO rating. The OSDCE program, which is established in the Ohio Revised Code and implemented in accordance with the Ohio Administrative Code, demonstrates strong state commitment and program history. Available funds for the intercept include the remaining aid appropriated for the district for the remainder of the state's fiscal year and the state may continue to intercept aid in future years, if necessary, until any debt service shortfall is fully paid.

State oversight of the program includes review by the state's OBM and Department of Education (ODE). The legislation and approval applications specify the agreement is irrevocable once executed, as long as enhanced bonds are outstanding. While the program has never been utilized, the state has demonstrated its commitment to school capital financings and the oversight criteria ensure availability of adequate education aid to repay bondholders, if necessary. The State of Ohio has historically adopted timely budgets or has made provisions for continuation resolutions. Based on these provisions, Moody's believes the OSDCE program exhibits strong state commitment.

The timing mechanisms of the program are also strong and require a third party fiscal agent to notify the state to intercept education aid if debt service is not received at least fifteen days prior to the date debt service is due. Once the ODE confirms that the district will be unable to meet debt service payments within three days prior to the debt service payment date, it must deposit the intercepted aid by 2 PM the day before debt service is due. These characteristics support our opinion that program mechanics are strong and the program is expected to continue to be rated one notch lower than the State of Ohio's GO rating.

The Aa2 enhanced rating also incorporate Moody's analysis of the sufficiency of interceptable revenues for all enhanced debt issued by the Toledo City School District and the role of the independent fiduciary. Debt service coverage is strong with estimated fiscal 2015 state foundation aid providing approximately 10.17 times coverage of MADS. The paying agent is Huntington National Bank (Aa3 stable) and the paying agent agreement will be signed in accordance with the administrative code requirements. The administrative code also specifies that any solvency loans required by districts under fiscal emergency are not to be included in the coverage calculation and that any state aid payments required for enhancement debt shall be made before any reduction in state aid is made for reimbursement of a solvency assistance advance. Moody's has received a copy of the approval letter from the ODE and the advice and consent letter from the Ohio OBM for inclusion in the state's credit enhancement program.

ECONOMY AND TAX BASE: ECONOMIC AND DEMOGRAPHIC CHALLENGES WITHIN TOLEDO WEIGH ON THE DISTRICT'S CREDIT PROFILE

We expect continued pressure on the Toledo's (A2 stable) economic and demographic profile given negative trends in tax base valuation, labor force and population. Since 2008, the district's full valuation declined by a cumulative 37%, falling from a peak of $9.7 billion in 2007 to a current $6.5 billion. Despite the expectation of stabilization in the near term, prospects for material growth and appreciation are likely limited, in part due to steady population loss, including that of 8.7% between the 2000 and 2010 US census periods. Median family income within the district is a comparably weak 67.3% of the national figure.

Though the city has made progress in diversifying its employment base, it has remained dependent on a considerable manufacturing presence, particularly Chrysler Group LLC's (FCA US LLC long term rated B1/positive outlook) Jeep Corporation and General Motors Company (long term rated Ba1/stable outlook). While Chrysler implemented large-scale layoffs at the onset of the national recession, the employer has expanded over the past two years adding 1,800 local jobs. GM entered bankruptcy in June 2009, laying off over 1,000 employees at the Toledo Powertrain facility; however, 900 were recalled in July 2009 and estimated employment at this facility now stands at slightly more than 1,950. Operations for the automakers appear to have stabilized for the near-term although the long-term prognosis is still unclear and current employment levels remain below recent highs (2007 data indicate that together Chrysler and GM employed nearly 8,700 in the Toledo MSA).

Despite continued exposure to the automotive companies, Toledo continues to diversify its economic base. This is most notably demonstrated by the fact that only one manufacturing entity is among the top ten employers in the metro area. The top five employers include health care, higher education, and local government. ProMedica Health System (revenue debt rated Aa3/stable outlook) and Mercy Health (Catholic Health Partners, A1/stable outlook), are the Toledo metro area's largest employers, with 10,809 and 7,200 employees, respectively. The city, in conjunction with Lucas County (Aa2), continues to engage in various economic development efforts, including substantial recent investment in downtown redevelopment.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCIAL OPERATIONS SUPPORTED BY PASSAGE OF NEW LEVY AND STRONG FISCAL MANAGEMENT

The district is expected to maintain healthy financial reserves following the successful passage of a new property tax levy and maintenance of conservative budgetary assumptions.

Sizeable operating shortfalls in fiscal years 2009 and 2010 drove the district's GAAP-basis General Fund balance to a deficit $11.5 million. Since then, the district recorded successive operating surpluses as management trimmed expenditures by a cumulative 7% to offset a total loss of revenue of 4.5%. At the center of the district's cost-cutting efforts was a transformation plan implemented in January 2011 that management estimates drove efficiency savings of $8 million per year. At the close of fiscal 2013, the district's GAAP-basis General Fund balance had increased to a positive $124,000.

Audited results show the district closing fiscal 2014 with an operating surplus of $29 million, which is supported by two key items. The state's biennium budget increased aid to the district by approximately $13 million over fiscal 2013 and the district utilized excess internal service fund reserves to support healthcare benefit costs, and thus, reduced General Fund expenditures for the year. The favorable result increased General Fund reserves to $29.2 million, or 9.1% of revenues. Due to the timing of receipt and expenditure recognition, the district's cash-basis financial reports provide a more accurate depiction of the financial situation and the district, like all others in Ohio, is required to submit five-year cash-basis financial forecasts to the ODE no less than twice per year. Audited financial results are not yet available for fiscal 2015, but based on the district's October 2015 submission of its five-year forecast, the district maintained a General Fund cash balance of $54 million, or 16% of operating receipts, at the close of fiscal 2015.

In November 2014, district voters authorized a new five-year 5.8 mill levy (4.3 mills for current expenses and 1.5 mills for permanent improvements). The district received half a year's collection in fiscal 2015, and will receive the full year's collection of $13.2 million in fiscal 2016. Of an estimated $13.3 million of the marginal revenue from that levy, $9.8 million will be used for general operating expenses, while approximately $3.5 million will be used for general permanent improvements. Given the passage of the levy, the district has reinstituted many cuts, particularly transportation, that were made in previous years. The district is expecting to conclude fiscal 2016 with a $1.7 million operating surplus.

Officials report the availability of approximately $6.1 million of reserves across multiple internal service and capital funds that the district could either transfer to the General Fund or utilize to support costs currently accounted for in the General Fund.

Liquidity

At the close of fiscal 2014, the district's GAAP-basis net cash position in the General Fund totaled $43.5 million, or a satisfactory 13.6% of revenues.

DEBT AND PENSIONS: DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

The district's direct debt burden, equivalent to an above average 2.1% of full valuation, is expected to remain manageable given the absence of additional borrowing plans. Significant moderation of the debt burden is unlikely in the near term as the prospects for significant tax base growth remain limited and a low 45% of outstanding principal is scheduled to be repaid within ten years. Debt service comprised a low 3.9% of total operating expenditures in fiscal 2014. All outstanding debt is fixed rate and the district is not a party to any interest rate swap agreements.

Debt Structure

Post-sale the district will have $134.1 million in outstanding GO unlimited tax debt. All of the district's debt is long-term and fixed rate.

Debt-Related Derivatives

The district is not a party to any swap agreements.

Pensions and OPEB

We calculate a high pension burden for Toledo City School District based on unfunded liabilities of two defined benefit cost-sharing retirement plans as well as our methodology for adjusting reported pension information. District employees are members of the Ohio State Teachers Retirement System (STRS) and the Ohio School Employees Retirement System (SERS). The district's three year average Moody's adjusted net pension liability (ANPL) through fiscal 2014 is $1.1 billion, equivalent to 16.2% of full valuation and 3.2 times fiscal 2014 operating revenue. We have allocated the liabilities of the cost-sharing plans to the district in proportion to its respective contributions to the plans.

Ohio statutes establish local government retirement contributions as a share of annual payroll. While the district has routinely made its full statutorily required payment to the cost-sharing plans, statutory contributions to STRS have been set well below actuarially-based standards for a number of years, resulting in steady growth in that plan's unfunded liability. Positively, the Ohio legislature enacted reforms in 2012 for all cost-sharing plans that include reductions in cost-of-living adjustments (COLAs) and phased-in growth in employee contributions. While savings associated with COLA changes are incorporated in the district's fiscal 2013 and 2014 ANPL, we anticipate that growing employee contributions will gradually improve the status of the statewide retirement plans.

MANAGEMENT AND GOVERNANCE: MODERATELY STRONG INSTITUTIONAL FRAMEWORK

Ohio school districts have an institutional framework score of 'A' or moderate. Operations are supported by a variable mix of state aid and local property tax revenue, with a minority of school districts also levying local income taxes. State aid has remained stable or grown in recent years and districts have the ability to increase local tax rates with voter approval. While costs tend to be predictable, school districts have limited flexibility to reduce expenditures, if needed, given that costs are heavily influenced by staff levels and compensation is governed by collectively bargained contracts.

The district has significantly improved its operating history over the last several years as a result of significant expenditure reductions and the successful passage of a new property tax in November 2014.

KEY STATISTICS

Estimated full valuation: $6.5 billion

Estimated full valuation per capita: $28,080

Estimated median family income as % of the US: 67.3%

Fiscal 2014 available fund balance / operating revenue: 9.9%

5-year change in available fund balance / operating revenue: 15.1%

Fiscal 2014 net cash / operating revenue: 14%

5-year change in net cash / operating revenue: 7.8%

Institutional framework score: A

5-year average operating revenue / operating expenditures: 1.02 times

Net direct debt burden: 2.1% of full valuation; 0.42 times operating revenue

3-year average Moody's adjusted net pension liability: 16.2% of full valuation; 3.2 times operating revenue

OBLIGOR PROFILE

Toledo Public Schools is the 4th largest public school system in Ohio, with approximately 22,445 students enrolled in its 40 K-8 schools, nine high schools, and eight education/specialized learning centers.

LEGAL SECURITY

The bonds are secured by the district's general obligation unlimited tax (GOULT) pledge, which benefits from a dedicated levy unlimited as to rate or amount. The bonds are further secured by the OSCDE intercept program.

USE OF PROCEEDS

Proceeds of the bonds will advance refund select maturities of the district's Series 2009 bonds for interest savings.

PRINCIPAL METHODOLOGY

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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