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Summary:
Toledo City School District, Ohio; School State Program

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Summary:

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Credit Profile		
US$21.995 mil sch facs imp rfdg bnds ser 2015 due 12/01/2035		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Toledo City Sch Dist GO State Credit Enhancement		
Long Term Rating	AA/Stable	Affirmed
Short Term Rating	NR	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA' long-term rating and 'A+' underlying rating to Toledo City School District, Ohio's series 2015 general obligation (GO) school facilities improvement refunding bonds. At the same time, we affirmed our 'AA' long-term rating and 'A+' underlying rating on the district's previously issued debt. The outlook is stable.

The 'AA' long-term and 'A+' underlying rating reflect our view of a pledge of an unlimited ad valorem tax on property within the district. It is our understanding that bond proceeds will be used to refinance a portion of the series 2009 GO school facilities improvement bonds for interest-cost savings only.

The series 2015 bonds are slated to receive credit enhancement under the Ohio State Aid Intercept program, which also has a credit profile of 'AA.' 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 on obligations that have received enhancement under the program is one notch below, and moves in tandem with, the state's general creditworthiness.

The 'A+' underlying rating reflects our assessment of the following factors for the district, specifically its:

- Status as a regional economic center and diversifying economic base, which is anchored by heath care, manufacturing, and education;
- Recent good budgetary performance, which has boosted reserves to a good level, albeit on a cash basis;
- Good management, which has shown the willingness and ability to make significant budget adjustments to maintain and build up positive cash levels; and
- Low overall debt.

We believe the low income indicators and the low market value per capita are limiting credit considerations.

Toledo City School District encompasses approximately 72 square miles and is located in Lucas County in an economy that we consider broad and diverse as the city of Toledo has been diversifying its labor sector to areas such as health care and education. Manufacturing, though, still plays a significant role in the regional economy because of the strong presence of General Motors Corp. and Fiat Chrysler, both of which have expanded in recent years. The top 10 largest employers include Fiat Chrysler and Sauder Woodworking Co., but the rest of the employers are in health care, education, retail, and government. The district's population of 226,600 is down nearly 9% since the 2010 U.S. census. This decline of population has also led to an overall decline in the enrollment. However, more recently the district has reported increases in its student population as well as projected an increase in enrollment. The average unemployment rates for Toledo and Lucas County for the 2014 calendar year were 6.9% and 6.3%, respectively, which are higher than the state average of 5.7% for the same time period. Both the city and county average unemployment rates have continued to decline, especially in the last 18 months, from levels close to 10% just a few years ago.

District income levels, in our opinion, are low, with median household effective buying income (EBI) and per capita EBI at 61% and 62%, respectively, of the national level. The district's assessed value (AV) has declined by 30% since tax year 2007, including by 14% for the last triennial update performed for collection year 2013, but the declines for collection years 2014 and 2015 were much lower and officials believe that the sexennial update for collection 2016 year will remain near the reported 2015 balance of $2.3 billion. Officials expect at least flat values for the next few years. The market value of $6.5 billion equates to a low value per capita of $28,848.

Between fiscal 2009 and 2014 (June 30), enrollment declined nearly 18%, reflecting the impact of population decline in Toledo, local economic conditions, and pressure from community schools. Fiscal 2015, however, saw its first increase in students in over a decade, to 21,985 from 21,874. Officials have implemented daily measures to meet with community members to emphasize its commitment to education; they believe their efforts is the one major reason for the turnaround in enrollment. The district expects a 2% increase for fiscal 2016 and small increases over the next five years. The district does participate in the open enrollment program, which accounts for about 10% of total enrollment. The district typically loses more students on an annual basis than it gains (nearly on a 2:1 basis) but stated that this gap has narrowed in recent years and that it expects this trend to continue in the near future.

The district's budgetary performance has been good with surpluses in each of the last four years. For fiscal 2014, on a generally acceptable accounting principles (GAAP) basis, the district had a surplus of $29 million, which basically boosted available reserves to 10% of operating expenses from less than 1% in fiscal 2013. In addition, the district had a surplus of $14.9 million (cash basis) for fiscal 2015. According to officials, the main reasons for the recent surpluses were an increase in state aid and a new property tax levy approved in November 2014 (the first additional money tax levy passed since 2000). Recent changes in the state formula for enrollment resulted in the district receiving more funding partly because of the district's high poverty rate.

The district's current October 2015 five-year forecast (cash basis) indicates a use of cash beginning in fiscal 2017 and continuing through fiscal 2019. A negative cash balance is projected by fiscal 2019, assuming a district operating levy expiring in 2018 is not renewed. Results for fiscal 2015 were a surplus of $14.9 million, which increased the ending unencumbered cash balance to $43.9 million, or 14% of operating expenditures, which we consider good. The district is predicting a surplus of $1.7 million for fiscal 2016. While the forecast shows deterioration in fund balance reserves over the next five years, which could pressure the debt rating, we have witnessed better actual results than those projected by the district in previous five-year forecasts. Specifically, when we reviewed the district in April 2014, the October 2013 forecast was for a deficit of $29.6 million which would have put the district into a negative cash position; the October 2015 forecast anticipated a nearly $15 million surplus, as noted above. 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.

Like many other districts in Ohio, the district is operating above the 20-mill floor and doesn't benefit much from any increase in AV. To sustain its revenue base from growing expenditures, most districts need to approach its residents through operating or bond referendums to maintain or increase its revenue raising flexibility. The city's history with respect to voter-approved operating levies has been weak. However, district voters approved an additional 5.8-mill levy in November 2014 14 years after the last additional current expenses improvement levy was passed in 2000. The district approached voters for approval of additional levies for current expenses twice between 2000 and 2014 and were turned away and the district withdrew on its own a new operating levy in 2005. As noted above, officials have been engaged with district residents and believe that was the one significant reason for the passage in November 2014. The voter history with respect to renewals has been strong, with only one failing in August 2003 (after a bond levy was passed in 2002). That same renewal levy was approved on a second try in November 2003. Officials have no plan to approach voters with any new operating levies for the next five years. There will be a renewal operating levies up for vote in 2018 and 2019.

The last audit (2014; GAAP basis) showed a surplus of $29 million, which increased the total available general fund balance to $29 million, or, in our opinion, a strong 10% of operating expenditures and transfers out. According to the fiscal 2014 audit, state aid accounted for 71% of total general fund revenues, while property tax revenues contributed 26%. Management has no plans to drawn on reserves in the next few years.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment methodology, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The budget process includes a line-by-line analysis for each department and many years of prior information, with an emphasis on the past three years. The budget can be amended as needed and the board receives a monthly budget-to-actual report. The district maintains a formal five-year forecast which is updated at least twice per year. The district maintains a capital expense plan for a five-year period that is updated each year and presented to the board. The district does have its own investment policy but reports performance and holdings monthly to the board. Officials are working to adopt a formal debt management policy. The district adopted a policy outlining the desire of the board to establish a budget stabilization reserve not to exceed 15% of total district general operating fund average appropriations for the past three years.

We consider the district's overall debt levels low at $1,079 per capita and moderate at 3.7% of market value. Debt service carrying charges were low, in our view, at 3.3% of governmental expenditures in fiscal 2014. Amortization is slightly below average as officials plan to retire approximately 47% of outstanding debt in 10 years and 100% in 20 years. Management has confirmed that the district has no alternative financing obligations. It is our understanding that the district doesn't have any debt plans for the next two years.

The district participates in the School Employees Retirement System of Ohio and the State Teachers Retirement System of Ohio, cost-sharing, multiemployer plans that provide defined-benefit pension and other postemployment employee benefits (OPEB). The district has made its annual required contribution payments the past three years. Based on the district's fiscal 2014 audit, combined payments for pension and OPEB represented 6.9% of total governmental expenditures. We do not expect these costs to rise sharply in the next two years.

Outlook

The stable outlook on the long-term rating reflects Standard & Poor's opinion of the state's GO bond rating.

The stable outlook on the underlying rating reflects our expectation that the district will continue to make the necessary adjustments to maintain at least good reserves on a cash basis, and maintain its low-to-moderate debt profile. As such, we do not expect the rating to change in the next two years.

Upside scenario

A higher underlying rating is possible if the district's income indicators (per capita and median household EBI) improve to a level we consider at least adequate and market value per capita materially improves. This is also contingent on the district maintaining good reserves on a cash basis.

Downside scenario

A lower underlying rating is possible if budgetary performance deteriorates and causes reserves to fall.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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