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Summary:

Forest Hills Local School District, Ohio; General Obligation

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Credit Profile

US\$103.0 mil sch imp unltd tax GO bnds (non-bank qualified) ser 2015 due 12/01/2046

Long Term Rating

AA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Forest Hills Local School District, Ohio's series 2015 unlimited-tax general obligation (GO) bonds. The outlook is stable.

The 'AA' rating reflects our view of the district's:

- Access to the broad and diverse Cincinnati metropolitan area,
- Very strong market value per capita and income levels,
- Strong financial position with strong electorate support for operating referenda, and
- Moderate overall net debt burden.

Partly offsetting the above strengths, in our view, are the district's:

- Lower current and projected reserves in comparison with those of more highly rated peer school districts, and
- Lack of a formalized reserve policy.

The district's unlimited-tax GO pledge secures the bonds pursuant to a voter-approved levy in November 2014 that received 53.7% support. The 2015 bonds represent the full \$103 million authority approved by voters. The district will use the bond proceeds to extensively renovate eight school facilities and build one new elementary school, among other improvements.

Forest Hills Local School District, which serves an estimated population of 45,119, encompasses 34 square miles in Hamilton and Clermont counties, about six miles east of downtown Cincinnati. The suburban district includes the Village of Newtown and most of Anderson Township. District residents have access to jobs throughout the Cincinnati area. Leading employers in the area include Kroger Co. (20,260 employees), the University of Cincinnati (15,651), Cincinnati Children's Hospital (13,967), and Proctor & Gamble Co. (12,000). The Hamilton County unemployment rate averaged 7.1% in 2013, slightly below the state and national averages of 7.4%. As of October 2014, the county unemployment rate was 4.4%. Resident income levels are, in our view, very strong, with median household effective buying income (EBI) and per capita EBI at 144% and 149%, respectively, of the national averages.

The district's tax base is predominantly residential, representing about 90% of the district's assessed valuation (AV), with commercial properties accounting for the majority of the rest. AV decreased 7.2% during the latest sexennial reappraisal, in collection year 2012, but has begun to rebound. In the 2015 triennial update, AV increased 3.9% to \$1.3

billion, largely as a result of a strong housing market. Estimated market value (which includes values of tax increment financing, or TIF, property) totals \$4.27 billion, or \$94,640 per capita, which we consider very strong. Management anticipates that AV will remain stable during the next several years, and reports that several residential and commercial developments are underway.

District enrollment has decreased slightly during the past several years, but remains stable overall. In fall 2010 to fall 2013, enrollment decreased by 3.4% to 7,564 students. External projections show enrollment decreasing by another 3.4% through fiscal 2019. The district does not participate in open enrollment, but management reports that many families move into the district given its good academic reputation.

The district has a strong financial position, in our opinion. Property tax and state aid revenue account for 55% and 25% of general fund revenue, respectively. On a generally accepted accounting principles basis, the district has posted two consecutive general fund surpluses. The district ended fiscal 2014 with an audited \$4.8 million general fund surplus (6.9% of expenditures), which increased the general fund balance to \$22.8 million. Of that amount, the assigned or unassigned portion totaled \$22.3 million, representing what we consider a very strong 31.7% of expenditures. On a cash basis of accounting, the district's unreserved general fund balance at the end of 2014 was 17.9% of expenditures, which we consider strong. The operating surplus was largely the result of the first full year collection of a 3.9-mill operating levy approved in March 2012, increased state aid funding, and various expenditure controls. According to management, the district has been able to control costs through various mechanisms, including the elimination of about 80 full-time employees, a negotiated three-year salary freeze, lower utility costs, and a cap on health insurance. The district's five-year forecast reflects a \$923,060 general fund cash deficit in fiscal 2015, but management now anticipates ending the year with balanced operations, partly because of an increase in TIF revenue that was not included in the original budget.

The district's October 2014 forecast (on a cash basis) for fiscal years 2015 through 2019 indicates that the district will continue drawing down general fund cash reserves, with reserves turning negative at the end of 2019. However, because of conservative budgeting and anticipated increases in TIF revenue, management anticipates that it will maintain a positive cash balance through at least 2019. Because voted school operating levies generally do not fluctuate with AV in Ohio, districts must often seek voter approval for new levies to keep up with rising costs. Management anticipates that it will not approach voters for a new operating levy until 2019 or 2020. Although the district lacks a minimum reserve target, its strategy is to approach voters two fiscal years before a negative cash balance is projected. In the current five-year forecast, the cash balance at the end of 2017 (two years before a negative cash balance) is about \$9 million, or 11.6% of expenditures, which we consider good on a cash basis. In our opinion, the district's voter support has historically been strong. Since 2002, the electorate has approved three of the four continuing operating levies on the first attempt.

We consider the district's management practices "good" under our financial management assessment (FMA) methodology. An FMA of "good" indicates our view that practices exist in most areas although not all might be formalized or regularly monitored by governance officials. Under state guidelines, the district formally updates its long-term financial plan twice a year and uses multiple years of historical data for revenue and expenditure assumptions. Management provides monthly reports to the board on budget-to-actual results and investment holdings

and earnings. The district adheres to state investment policies but has no formal debt or reserve policy.

Following the issuance of the 2015 bonds, we consider the district's overall net debt burden moderate at 3.1% of market value, or \$2,930 per capita. In our opinion, amortization is slow, with 24% of the district's direct debt scheduled to be retired in 10 years and 52% in 20 years. The debt service carrying charge was a low 3% of expenditures in fiscal 2014, but annual debt service costs will increase with the series 2015 bonds (but should remain low to moderate). It is our understanding that the district has no plans to issue additional debt in the next several years.

The district contributes to the School Employees Retirement System (SERS) and the State Teachers Retirement System of Ohio (STRS Ohio), both cost-sharing, multi-employer pension plans administered by the state. The district contributes the required amounts to these plans annually, with the amounts totaling an estimated \$6.7 million, or 8.4% of total governmental fund expenditures, in fiscal 2014. Other postemployment benefits (OPEBs), including retiree health care, are provided through SERS and STRS Ohio, so the district has no direct OPEB liability.

Outlook

The stable outlook reflects our belief that the district will maintain at least good cash reserves in the two-year outlook horizon. Furthermore, we believe that the district's access to the Cincinnati metropolitan area provides additional rating stability. Given a history of strong voter support, we believe that the district will maintain a strong financial position, and therefore we do not anticipate lowering the rating in the next two years. If the district is able to maintain stronger reserves, we could consider a higher rating.

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

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