MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Forest Hills L.S.D.'s, OH $103.0M GO Bonds, Ser. 2015

Global Credit Research - 28 Jan 2015

Aa2 rating applies to $106.8M of outstanding GO debt

FOREST HILLS LOCAL SCHOOL DISTRICT, OH
Public K-12 School Districts
OH

Moody's Rating

ISSUE	RATING
School Improvement Unlimited Tax General Obligation Series 2015 (Non-Bank Qualified)	Aa2

Sale Amount	$103,000,000
Expected Sale Date	02/04/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, January 28, 2015 --Moody's Investors Service assigns a Aa2 rating to Forest Hills Local School District's (OH) $103 million School Improvement Unlimited Tax General Obligation (GO) Bonds, Series 2015 (Non-Bank Qualified). Concurrently, Moody's affirms the Aa2 rating on the district's outstanding GO debt. Post-sale, the district will have $106.8 million in GO debt outstanding.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the district's sizable tax base in the Cincinnati (Aa2 negative) metropolitan area characterized by its residential nature and above average income levels, along with satisfactory General Fund cash reserves which are expected to remain stable over the medium term. Also incorporated in the rating are the district's above average debt burden following the current borrowing and its elevated exposure to two significantly underfunded statewide pension plans.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Expansion of the district's tax base and/or further strengthening of residential income levels

- Sustained increases to General Fund cash reserves

- Moderation of the district's debt burden and unfunded pension liabilities

WHAT COULD MAKE THE RATING GO DOWN

- Erosion of the district's tax base and/or falling residential income levels

- Deterioration of General Fund cash reserves

- Growth of the district's debt and pension burdens

STRENGTHS

- Sizable, residential tax base located adjacent to Cincinnati

- Above average socioeconomic characteristics

- Capable financial management with maintenance of stable operating reserves

CHALLENGES

- Above average debt burden due to current capital borrowing

- Elevated exposure to two significantly underfunded statewide pension plans

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SUBURBAN CINCINNATI TAX BASE WITH ABOVE AVERAGE RESIDENT WEALTH INDICES

We expect the district's tax base will continue to benefit from its location within the Cincinnati metropolitan. The district is located 15 miles east of downtown Cincinnati, and provides pre-kindergarten through 12th grade education for Anderson Township (Aaa) and the Village of Newtown. The sizable $3.7 billion tax base is predominately residential (90% of 2014 assessed value) with a modest commercial (8%) component. The district's assessed value has declined by an average of 0.7% over the last five years, which includes a 7.2% decrease in its 2012 reassessment and modest increases in 2013 and 2014. Future growth in the district's tax base is likely limited to appreciation and/or redevelopment as the base is mature and nearly built out. Not included in the district's total assessed valuation are increment values associated within Anderson Township's Tax Increment Financing (TIF) district. The district is comprised of over 2,000 mixed residential and commercial parcels.

Residential income levels are well above average, according to 2008-2012 data estimates from the US Census Bureau's American Community Survey. Median family income stands at 157.2% of the US level, while the district's estimated 2014 full value per capita was a healthy $80,000. The district's population in 2010 stood at 46,156, which represents a 0.2% decrease from 2000. Student enrollment in the district's nine school buildings mirrors the population trend, with a modest average annual decrease of 0.5% from fiscal 2009 to fiscal 2014. Management projects similar enrollment declines over the near term.

FINANCIAL OPERATIONS AND POSITION: SATISFACTORY GENERAL FUND RESERVES EXPECTED TO REMAIN STABLE

The district's sustained history of maintaining satisfactory reserve levels points to the continuation of stable financial performance. The district's operating revenue mix includes local property taxes (55% of fiscal 2014 General Fund revenues), intergovernmental aid (33%) and payments in lieu of taxes (PILOTs; 9%), which consist of "make whole" revenues provided by the TIF district. The largest portion of local property taxes are voter approved levies. In recent years the voters have shown strong support for the district, approving three of the past four operating levies along with the sizable current bond issuance approved in November 2014. All of the district's outstanding levies are continuous which eliminates the risk of renewing existing levies. District management continually monitors the need for the next levy request, taking into account state revenue trends, expenditure growth and future years' General Fund projections. We do not anticipate a near-term operating levy request based on the district's current financial forecast.

The district's General Fund balance improved considerably in fiscal 2014, due to a full year's collection on its most recent operating levy approved in March 2012 and increases to state aid. On a GAAP-basis the district recorded a $4.8 million operating surplus, increasing its year-end balance to $22.8 million, or a healthy 30% of annual operating revenues. Aside from the General Fund, other notable reserves included a committed balance of $1.3 million in its Capital Improvement Fund and $3.2 million in restricted Debt Service reserves.

Liquidity

At the close of fiscal 2014, the district's General Fund cash position was $13 million, or a satisfactory 17.4% of annual receipts. Like all Ohio (Aa1 stable) public school districts, Forest Hills is required to produce five-year cash-basis financial forecasts on a biannual basis. The district's most recent October 2014 forecast depicts a moderate operating deficit of $923,000 for fiscal 2015, which if realized would result in an ending balance of $12.1 million, or 16.2% of receipts. Beyond fiscal 2015 the district's forecasted figures skew conservatively, with future financial results likely exhibiting a positive variance. The positive variance will most likely occur in key revenue streams as projections hold state aid flat beyond fiscal 2015 and incorporate only modest property tax increases. Additionally, management has identified approximately $900,000 in additional PILOT payments which it expects to collect for nine years, beginning with a half year's collection in fiscal 2015. Improvement to the current forecast going forward will likely extend the district's timeframe for its next operating levy request.

DEBT AND OTHER LIABILITIES: CURRENT BORROWING ELEVATES DEBT LEVELS BUT FULLFILLS LONG-TERM BORROWING NEEDS

While the district's new borrowing significantly elevates its debt profile, we expect its debt burden will remain manageable due to the even repayment structure of the current offering and the lack of additional long-term borrowing plans. Post-sale the district's direct debt and overall debt burdens will stand at 2.9% and 3.6% of full value, respectively.

Debt Structure

All of the district's outstanding debt is fixed rate. Amortization of the debt will be slow, but in line with the lifespan of the projects being financed, with just 25.2% of principal retired within ten years.

Debt-Related Derivatives

The district is not a party to any derivative or swap agreements.

Pensions and OPEB

We calculate an above average pension burden for the district based on unfunded liabilities of two defined benefit cost-sharing plans. Eligible district employees are either members of the School Employees Retirement System of Ohio (SERS) or the State Teachers Retirement System of Ohio (STRS). The district's combined contributions to the plans for both pension and other post retirement benefits (OPEB) was $6.7 million in fiscal 2014, equivalent to 8.4% of operating revenues. Moody's has allocated the unfunded pension liability of the combined plans to the district based on its share of annual contributions and made additional adjustments to improve the comparability of reported pension liabilities based Moody's methodology for analyzing pension liabilities. The district's adjusted net pension liability (ANPL) in fiscal 2014 was $297.9 million. In the three years through fiscal 2014, the district's ANPL was elevated at 4.6 times annual operating revenue and 9.4% of full valuation.

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 ANPL, we anticipate that growing employee contributions will gradually improve the status of the statewide retirement plans.

MANAGEMENT AND GOVERNANCE: MODERATELY STRONG INSTITUTIONAL FRAMEWORK; EFFICIENT MANAGEMENT TEAM AND LONG-TERM CONTRACTS PROVIDE FUTHER STABILITY

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's administration and Board of Education demonstrate strong management practices. Additionally, the district's favorable ratios of expenditures per pupil and administrative costs per pupil points to efficient district operations. Although the district's community has shown support for additional tax increases, management has actively worked to reduce costs in recent years. Recent cost containment measures include the reduction of 80 staff positions since fiscal 2010, union salary concessions for fiscal years 2011 through 2013, and shared services and purchase agreements with neighboring districts. All current bargaining contracts are valid through fiscal 2017 and allow for affordable salary increases and changes to employee paid benefits. The district has also found savings through its membership to a health and wellness consortium and by self-insuring itself for workers' compensation claims.

KEY STATISTICS

2014 Estimated full valuation: $3.7 billion

2014 Estimated full valuation per capita: $80,000

Estimated median family income as % of the US: 157.2%

Fiscal 2014 available operating fund balance / operating revenue: 29.7%

5-year change in available operating fund balance / operating revenue: 2.7%

Fiscal 2014 operating net cash / operating revenue: 17.8%

5-year change in operating net cash / operating revenue: 1.6%

Institutional framework score: A

5-year average operating revenue / operating expenditures: 1.00

Net direct debt burden: 2.9% of full valuation; 1.4 times operating revenue

3-year average Moody's adjusted net pension liability: 9.4% of full valuation; 4.6 times operating revenue

OBLIGOR PROFILE

Forest Hills Local School District is located immediately east of Cincinnati in Hamilton County (Aa2 negative). The district provides pre-kindergarten through 12th grade education for 7,564 students, serving approximately 46,000 residents in Anderson Township and the Village of Newtown.

LEGAL SECURITY

The bonds are secured by the district's general obligation unlimited tax pledge (GOULT) which benefits from a dedicated property tax levy that is unlimited as to rate or amount. The authority to issue the bonds was approved by voters in a November 2014 referendum.

USE OF PROCEEDS

Proceeds from the bonds will finance comprehensive capital projects for all district buildings, including the complete renovations for eight buildings as well as the construction of a new elementary school following the demolition of an existing one.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Andrew T. Van Dyck Dobos
Lead Analyst
Public Finance Group
Moody's Investors Service

Genevieve Nolan
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA