

New Issue: MOODY'S ASSIGNS Aa1 RATING TO WESTLAKE CITY SCHOOL DISTRICT'S (OH) \$84.1 MILLION SCHOOL IMPROVEMENT BONDS (GOULT), SERIES 2010A, SERIES 2010B, AND SERIES 2010C

Global Credit Research - 30 Jul 2010

Aa1 RATING APPLIES TO \$104.1 MILLION OF POST-SALE GOULT DEBT

Primary & Secondary Education
OH

Moody's Rating

ISSUE	RATING
General Obligation School Improvement Bonds, Series 2010A	Aa1
Sale Amount	\$12,720,000
Expected Sale Date	08/10/10
Rating Description	General Obligation Unlimited Tax
General Obligation School Improvement Bonds, Series 2010B (Federally Taxable - Build America Bonds)	Aa1
Sale Amount	\$60,135,000
Expected Sale Date	08/10/10
Rating Description	General Obligation Unlimited Tax
General Obligation School Improvement Bonds, Series 2010C (Federally Taxable - Qualified School Construction Bonds)	Aa1
Sale Amount	\$11,200,000
Expected Sale Date	08/10/10
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Jul 30, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Westlake City School District's (OH) \$12.7 million School Improvement Bonds, Series 2010A (General Obligation - Unlimited Tax), \$60.1 million School Improvement Bonds, Series 2010B (Federal Taxable - Build America Bonds - Direct Payment) (General Obligation - Unlimited Tax), and \$11.2 million School Improvement Bonds, Series 2010C (Federal Taxable - Qualified School Construction Bonds - Direct Payment) (General Obligation - Unlimited Tax). Proceeds of the bonds will be used to construct new high school and middle school facilities as well as renovate and remodel the district's existing middle school. The current issuances were authorized by district voters in May 2010, and debt service is secured by the district's general obligation unlimited tax pledge. The Series 2010B bonds will be issued as Taxable Build America Bonds and the Series 2010C bonds will be issued as Qualified School Construction Bonds. Concurrently, Moody's has affirmed the Aa1 rating on the district's \$104.1 million of outstanding general obligation debt, including the current issues. Assignment and affirmation of the Aa1 rating reflects the district's large and suburban Cleveland (rated A1/stable outlook) tax base, sound finances supported by solid reserves, and above average but manageable debt burden with no additional borrowing planned in the immediate term.

LARGE AND AFFLUENT TAX BASE LOCATED IN CLEVELAND METRO EXPERIENCING CONTINUED ECONOMIC GROWTH

We believe the district will continue to experience tax base growth due to ongoing economic growth and diversification. Situated in Cuyahoga County (rated Aa1/stable outlook) along the Interstate 90 corridor, the district is approximately 13 miles west of Cleveland (rated A1/stable outlook) and encompasses the entire City of Westlake (rated Aaa). Westlake City School District's moderately-sized \$3.9 billion tax base has averaged 1% annual growth since 2005. In November 2000, the City of Westlake's voters approved the construction of Crocker Park, an 80-acre mix-use planned development that contains retail, restaurant, office and residential areas. Management reports that development has been strong in recent years, and expects continuing construction in the near term. District income levels are well in excess of state averages, with per capita income and median family income at 176.8% and 162.3% of state levels, respectively. The district's unemployment rate (9.4% as of May 2010) is below the state figure of 10.1% during the same period and approximates the national rate.

FINANCIAL POSITION STRENGTHENED FROM YEAR-OVER-YEAR OPERATING SURPLUSES AND STRONG MANAGERIAL OVERSIGHT

We expect the district's financial operations to remain sound in the near term due to strong fiscal oversight which has led to the development of healthy General Fund reserves. In fiscal 2006, the district maintained reserves totaling \$1.9 million, or a narrow 4.6% of General Fund revenues. With a current expense levy passed in 2006 and continued valuation growth, the district was able to realize sizable General Fund operating surpluses of \$3.2 and \$7.5 million in fiscal 2007 and 2008, respectively. In fiscal 2009, the district's General Fund posted a \$4.4 million operating surplus, bringing reserves to \$18.9 million, or a strong 36.4% of revenues (GAAP-basis). Year-end 2009 General Fund revenues were collected approximately \$5 million more than budgeted figures, which largely contributed to the sizable surplus. Notably, property tax revenues, the district's largest revenue source (78.8% of General Fund revenues) came in \$3.9 million over budget due to continued development within Crocker Park. All other operating revenue streams posted positive variances, demonstrating management's conservative budgetary approach. Additionally, expenditures experienced a positive variance by \$1.6 million. Management attributes lower expenditures to favorable labor settlement agreements, healthcare savings realized within the district's consortium, and personnel savings. The district implemented a retirement incentive offering in 2006 and a second in 2009. The cumulative savings of both offerings is estimated to be \$3.1 million over a window of several years.

Initial figures for fiscal 2010 depict a trend similar to historical results, with strong revenue collections and expenditures trending below budget. Unaudited results show a General Fund operating surplus of \$3 million. Management cites a \$1.8 million positive budget-to-actual variance in revenues and expenditures as a key driver to the surplus. Additionally, management budgeted for an 8% increase in healthcare expenses; however the district's healthcare consortium kept charges flat to utilize excess reserves available within the system. The surplus brings the district's General Fund reserves to \$23.1 million on a cash basis, or an ample 45.5% of receipts. When the last operating levy was approved in 2006, management pledged not to approach voters for an operating levy before 2010. Due to management's conservative budgeting practices that have favorably affected the General Fund financial cushion, management is only considering a current expense levy in 2013.

AVERAGE DEBT BURDEN; SLOW PRINCIPAL PAYOUT IN LINE WITH USEFUL LIFE OF ASSETS

We believe the district's moderate debt burden (3.8% overall and 2.7% direct) will be manageable due to expected tax base growth and a lack of immediate borrowing needs. Debt amortization is below average, with 29.9% of principal retired in ten years. While this figure has slowed significantly from 72% due to the structure of the current issue, we note that the amortization is within the useful life of the projects. According to officials, the district does not have immediate borrowing needs; however, the second phase of the current project is expected to begin in 2015, when the district will be issuing an additional \$40 million for the construction of three elementary schools. We expect the district's debt position to increase following the sale of the additional bonds, but anticipate future tax base growth will help mitigate the leverage. All of the district's debt is fixed rate, and the district is not a party to any interest rate swap agreements.

KEY STATISTICS

2000 population: 31,719

2010 full value: \$3.9 billion

Full value per capita: \$122,904

Median family income as % of state: 162%

Per capita income as % of state: 177%

Fiscal 2009 General Fund balance (GAAP basis): \$18.9 million (36.4% of General Fund revenues)

Fiscal 2009 General Fund cash balance: \$20.1 million (39% of General Fund receipts)

Debt burden: 3.8% (2.7% direct)

Debt amortization (10 years): 29.9%

Post-Sale General Obligation debt outstanding: \$104.1 million

The principal methodology used in rating Westlake City School District was Moody's General Obligation Bonds Issued by U.S. Local Governments published in October 2009 which can be found at www.moody's.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issue can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action and report published with respect to Westlake City School District (OH) was on February 6, 2007 when the district's Aa2 GO rating was affirmed. That rating was subsequently recalibrated to Aa1 on April 23, 2010.

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