

Summary:

Westlake City School District, Ohio; General Obligation

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Credit Profile

US\$84.055 mil GO unlt'd sch imp taxable Build America & qual sch const bnds ser 2010A-C due 12/01/2043

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' long-term rating to Westlake City School District, Ohio's series 2010A, 2010B, and 2010C general obligation (GO) unlimited-tax school improvement bonds. Depending on market conditions, the bonds will consist of tax-exempt Build America bonds and qualified school construction bonds, and the proceeds will be used for districtwide facility improvements.

The rating is based on the following characteristics:

- A large local economic base with access to employment throughout the entire Cleveland area;
- Stable enrollment levels;
- Income levels and tax base indicators we consider at least very strong;
- Consistent voter support over the past 15 years or so, in our opinion;
- A general fund balance we consider very strong; and
- Overall net debt at moderate levels, in our opinion.

Offsetting these strengths is debt amortization we consider very slow and the intent to issue additional debt to fund capital projects.

The district's unlimited-tax GO pledge secures debt service on the bonds.

It is our understanding that the district intends on levying for gross debt service one year before debt service is due, which, in our opinion, would provide for an adequate amount of revenues to be available to pay debt service if there is a delay in payment of the interest subsidy from Build America bonds or qualified school construction bonds. In addition, the district will be gross funding sinking fund payments for the qualified school construction bonds and not relying on interest earnings for debt service payments.

Westlake City School District serves the city of Westlake and a population of about 30,400. Because of its location on the west side of the Cleveland metropolitan area, residents have easy access to employment throughout the area. In addition, the city hosts a large local employment base, with the following larger employers:

- St. John-West Shore Hospital (1,273 employees),
- Hyland Software (computer software developer, 754),
- Westlake City School District (577),
- City of Westlake (420),
- Energizer Battery (corporate headquarters, 365), and

- Westbay Care and Rehabilitation (300).

In addition, the city's unemployment rate has consistently been below state and national levels; in 2009, the average rate was 7.0% while the April 2010 rate was 7.9%.

Enrollment has remained steady, and the district expects this trend to continue. Current enrollment is expected to be 4,123 for the 2010-2011 school year. Projections from the district indicate that in the 2014-2015 school year, enrollment will be 4,109.

We consider the district's other income and tax base indicators at least very strong. Median household and per capita effective buying income are very strong at 139% and 177% of national averages, respectively. Assessed value of \$1.4 billion is approximately \$3.9 million of market value; this translates to \$127,871 per capita, which we consider extremely strong.

Voter support for operations has been fairly consistent since about 1995. From 1980-1995, voters passed only three out of 14 ballot measures (although three of these were one combined bond request in May 1991). Since then, six of eight measures have passed, including the request for the 2010 bonds. District officials have regular communications with voters, including a regular newsletter, a district-run television station, and a citizens advisory committee.

Over the previous three audited years, the general fund balance has remained at a level we consider very strong, but the district expects the balance to steadily decrease due to its levy cycle. On fiscal year-end June 30, 2009, the unreserved general fund balance was \$10.9 million, or 22.8% of expenditures. On a cash basis, for 2010, the district expects to increase its cash levels by \$3 million and achieve about balanced operations for 2011. After that, the district expects its general fund cash balance to steadily decrease until it can have another property tax levy approved by voters. The last levy approval was in May 2006, and according to the district, the next levy request would likely occur in 2012 or 2013 in advance of revenues to be received during fiscal 2014.

Westlake City School District's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of good indicates that the district maintains financial management practices in most areas, although all may not be formalized or regularly monitored. Highlights of these policies include regular review of budget performance with elected officials, detailed revenue and expenditure assumptions with the existence of five-year financial planning, and a formal investment policy. Although the district lacks formal debt or fund balance policies, the above strengths offset these vulnerabilities to the FMA.

Although we consider overall net debt levels moderate with low debt service carrying charges, the district's debt is retired at a pace we consider very slow. Additional debt will likely be issued in several years to complete the district's full master capital plan. Overall net debt is \$4,913 per capita and 3.8% of estimated market value. Just 40% of debt is retired in 10 years and 50% over 20 years; all of the district's debt is retired by 2043. Since 2007, the district's debt service charges have been less than 8%, which we consider low. We do not believe that the additional debt service due to the 2010 bonds will cause a significant amount of budgetary pressure, especially since the bonds are financed with a separate debt levy.

Outlook

The stable outlook is based on our expectation that the district will continue to manage its levy cycle in a manner that would produce financial results consistent with historical trends. In addition, the district's large employment base and access to employment throughout the area lend stability to the rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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