Moody's Investors Service

New Issue: **MOODY'S ASSIGNS Aa1 RATING TO WESTLAKE CITY SCHOOL DISTRICT'S (OH) $6.4 MILLION GENERAL OBLIGATION UNLIMITED TAX SCHOOL IMPROVEMENT REFUNDING BONDS, SERIES 2011**

Global Credit Research - 03 Oct 2011

Aa1 RATING APPLIES TO $101.9 MILLION OF POST-SALE GOULT DEBT

Primary & Secondary Education
OH

Moody's Rating

ISSUE	RATING
General Obligation School Improvement Refunding Bonds, Series 2011	Aa1

Sale Amount	$6,420,000
Expected Sale Date	10/11/11
Rating Description	General Obligation Unlimited Tax

Opinion

NEW YORK, Oct 3, 2011 -- Moody's Investors Service has assigned a Aa1 rating to Westlake City School District's (OH) $6.4 million General Obligation Unlimited Tax School Improvement Refunding Bonds, Series 2011. Concurrently, Moody's has affirmed the Aa1 rating on the district's $101.9 million of outstanding general obligation debt, including the current issue.

SUMMARY RATINGS RATIONALE

The bonds are secured by the district's general obligation unlimited tax pledge and proceeds will be used to advance refund select maturities of the district's outstanding Series 2003 bonds for net present value savings of $470,000, or 8% of principal. 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.

STRENGTHS

-Continuous economic growth; wealthy residential base

-Consistent management and stable finances

-Contingency planning for potential budgetary challenges

CHALLENGES

-Slow principal amortization

DETAILED CREDIT DISCUSSION

AFFLUENT CLEVELAND SUBURB CONTINUES TO EXPERIENCE GROWTH

The district will likely continue to experience tax base growth due to ongoing economic growth and diversification. Situated in Cuyahoga County (Aa1/stable outlook) along the Interstate 90 corridor, the district is approximately 13 miles west of Cleveland (A1/stable outlook) and encompasses the entire City of Westlake (rated Aaa). The 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. Recently, the city announced that the corporate headquarters for American Greetings was relocating to Crocker Park. While the move is associated with a Tax Increment Financing (TIF) district, the company will be making PILOT payments of at least $455,000 annually to the district for the life of the TIF. 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 (8.8% as of July 2011) is below state and national figures of 9.2% and 9.3%, respectively, during the same period.

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

The district's financial operations are expected 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 in fiscal years 2007, 2008, and 2009. The district's General Fund maintained reserves totaling $18.9 million, or a strong 36.4% of revenues (GAAP-basis) at the conclusion of 2009. On a cash-basis, the district maintained reserves totaling $20.1 million, or 39% of General Fund receipts.

Fiscal 2010 depicted increases in reserves due to strong revenue collections and expenditures coming in below budget. The additions to reserves was primarily a result of cost containment initiatives and property tax revenues, the district's largest revenue source (76.8% of General Fund revenues), coming in stronger than budget due to continued development within Crocker Park. On a GAAP-basis, the General Fund concluded the year with a $1.9 million operating surplus, bringing reserves to $20.8 million, or 41.8%. On a cash basis, the district finished the year with a carryover totaling $23.1 million, or 45.4% of receipts. Unaudited cash-basis figures from fiscal 2011 show the district recording a $1.3 million operating surplus. The district expects to lose approximately $4 million in intergovernmental revenues between fiscal 2012 and 2013 due to cuts made for the new biennium. As a result, management has been proactive in mitigating the impact by making personnel, operational, programmatic, and transportation reductions. 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.

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

We expect the district's moderate debt burden (3.7% overall and 2.6% direct) will be manageable due to expected tax base growth and a lack of immediate borrowing needs. Debt amortization is below average, with 29.7% of principal retired in ten years. While this figure has slowed significantly in recent years in conjunction with debt issuance, 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.

WHAT COULD CHANGE THE RATING UP

-Moderation of the district's direct debt burden

- Significant expansion of the district's tax base above similarly rated entities

WHAT COULD CHANGE THE RATING DOWN

-Significant revenue constraints pressuring near-term budgets without commensurate offsetting expenditure cuts.

-Deterioration of the district's tax base and underlying economic strength.

KEY STATISTICS

2010 population: 32,729

2010 full value: $3.9 billion

Full value per capita: $119,578

Median family income as % of state: 162%

Per capita income as % of state: 177%

Fiscal 2010 General Fund balance (GAAP basis): $20.8 million (41.8% of General Fund revenues)

Fiscal 2010 General Fund cash balance: $23.1 million (45.4% of General Fund receipts)

Fiscal 2011 Unaudited General Fund cash balance: $24.4 million (48.1% of General Fund receipts)

Debt burden: 3.7% (2.6% direct)

Debt amortization (10 years): 29.7%

Post-Sale General Obligation debt outstanding: $101.9 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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