

RatingsDirect®

Summary:

Westlake City School District, Ohio; General Obligation

Primary Credit Analyst:

Errol R Arne, New York (1) 212-438-2379; errol.arne@standardandpoors.com

Secondary Contact:

Benjamin D Gallovic, Chicago (312) 233-7070; benjamin.gallovic@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Westlake City School District, Ohio; General Obligation

Credit Profile

US\$54.595 mil GO (unltd tax) sch imp rfdg bnds ser 2014 due 12/01/2043

Long Term Rating AA+/Stable New

Westlake City Sch Dist GO unltd sch imp taxable Build America & qual sch const bnds

Long Term Rating AA+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' long-term rating to Westlake City School District, Ohio's series 2014 general obligation (GO) school improvement refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on the district's previously issued GO debt. The outlook is stable.

The rating reflects our assessment of the district's:

- Large local economic base with access to the diverse Cleveland area;
- Strong to very strong income indicators and extremely strong market value per capita;
- Very strong general fund reserves, supported by consistently strong voter history; and
- Moderate overall net debt burden.

We consider the slow debt amortization as an offset to the above credit strengths.

The district's unlimited-tax GO pledge secures the bonds. It is our understanding that the bonds proceeds will be used to refund the series 2010 Build America Bonds for interest costs savings. The refunding is due primarily to the district not receiving the expected subsidy interest payments from the U.S. Government and because the district exercised its extraordinary optional redemption.

Westlake City School District is in Cuyahoga County in northeastern Ohio, approximately 13 miles west of Cleveland and serves about 32,707 residents in the city of Westlake. Although many residents commute throughout the Cleveland area for employment, large local employers include St. John-West Shore Hospital (1,296 employees), Hyland Software (1,260), the district (537) and the city of Westlake (441). American Greetings has broken ground in Westlake, with the expectation of creating approximately 1,800-2,000 jobs. The average unemployment rate for the city of Westlake for the first six months of the 2014 calendar year is 5.9%, which is slightly lower than the state average of 6.2% for the same period.

In our opinion, the median household effective buying income (EBI) is strong at 120% when compared with the national level while the per capita EBI is very strong at 142% when compared with the national level. The district's assessed value (AV) decreased slightly from 2013 to 2014 to \$1.354 billion. The district's AV has increased and

decreased slightly over the past five years. Officials expect at least flat values, if not an increase, for the triennial update in fiscal 2016. The market value of \$3.87 billion equates to an adequate market value per capita of \$118,326, which we consider extremely strong.

Enrollment has declined by 5.5% since fiscal 2012 to 3,839 students for fiscal 2015. Management believes enrollment will remain between 3,800 and 3,900 students for the next five years. The district does not participate in the open enrollment program.

On a generally accepted accounting principles (GAAP) basis, the district's budgetary performance declined as it had its second deficit in fiscal 2013 (June 30) after three straight surpluses from 2009-2011 in its general fund. Despite the deficits, the budgetary flexibility remains very strong with the district having available reserves of 36% of general fund operating expenses as June 30, 2013.

The district's current October 2014 five-year forecast (cash basis) indicates a use of cash beginning in fiscal 2015 and continuing through fiscal 2019. Positive cash balances (before encumbrances), however, are maintained through fiscal 2018 with a negative cash balance starting in fiscal 2019. Results for fiscal 2014 (cash basis) is projected to be a surplus of \$147,000, which would increase the ending cash balance to \$19.4 million, or 37.25% of operating expenditures, which we consider strong.

The district may approach voters for a new money referendum in the next two years. Since 2000, the district has only had four operating levy referendums and three out of the four were turned away by voters, with two of the referendums failing in November and May 2013. Voters did approve a bond election in 2010. Despite the recent levy failures, officials believe they have the support of the residents.

The last audit, 2013, (GAAP basis), depicted a deficit of \$2.9 million, which decreased the total available general fund balance to \$18.87 million, or in our opinion, a very strong 36% of operating expenditures. According to the fiscal 2013 audit, property taxes accounted for nearly 80% while state aid contributed approximately 17%.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment (FMA) methodology. An FMA of good indicates our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

We consider the district's overall debt levels moderate at \$3,597 per capita and 3% of market value. Debt service carrying charges were also moderate, in our view, at 14.4% of governmental expenditures in fiscal 2013. Amortization is below average as officials plan to retire about 27% of outstanding debt in 10 years and 55% in 20 years. It is our understanding that the district may approach voters for a bond issue in the next year for phase two of its building master plan.

The district participates in the School Employees Retirement System of Ohio and the State Teachers Retirement System of Ohio--cost sharing, multiple employer, defined-benefit pension plans, and other postemployment employee benefits (OPEB). The district has made its required contribution payments. Based on the district's fiscal 2013 audit, combined payments for pension and OPEB represented approximately 4.4% of total governmental expenditures. We do not consider the pension and OPEB liabilities to be a significant budget pressure as the district does not expect

overall costs to materially increase over the next two years.

Outlook

The stable outlook reflects our expectation that the district will make the necessary adjustments to maintain at least strong cash reserves. We do not expect to revise the rating within the two-year outlook period, but if the recent decline in the budget performance continues and there is a material deterioration of the district's reserves, the rating could be pressured. If the district's budget performance improves and materially adds to its general fund reserves and the debt amortization improves, the rating could be raised.

Related Criteria And Research

Related Criteria

USPF Criteria: GO Debt, Oct. 12, 2006

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.