

**Summary:**

## Westlake City School District, Ohio; General Obligation

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Credit Profile		
US\$6.42 mil GO (unltd tax) sch imp rfdg bnds ser 2011 due 12/01/2027		
<i>Long Term Rating</i>	AA+/Stable	New
Westlake City Sch Dist GO unltd sch imp taxable Build America & qual sch const bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' long-term rating to Westlake City School District, Ohio's series 2011 unlimited-tax general obligation (GO) school improvement refunding bonds. At the same time, we affirmed the 'AA+' long-term rating on the district's previously rated debt. The outlook is stable. The rating reflects our view of the district's:

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

The district's unlimited-tax GO pledge secures debt service on the bonds. Management plans to use bond proceeds to advance refund the 2012 through 2027 maturities of the district's series 2003 unlimited-tax GO school improvement bonds for interest savings.

Westlake City School District is located in Cuyahoga County, approximately 13 miles west of Cleveland. The district serves approximately 32,729 residents in the City of Westlake. While many residents commute throughout the Cleveland area for employment, large local employers include a hospital, Hyland Software Inc., and Energizer Battery (corporate headquarters). American Greetings has announced that it is moving to Westlake, creating approximately 2,000 jobs. The city unemployment rate was 7% in August 2011, below state and national levels of 8.8% and 9.1%, respectively. We consider district median household and per capita effective buying income levels very strong at 148% and 167% of national averages, respectively.

Despite reductions in tangible personal property tax, we consider the district's tax base very strong. Total assessed value has decreased 5.2% since reappraisal year 2007. Residential values dipped 4.9% in 2010, but assumed 0.3% growth again in 2011. We consider market value per capita extremely strong at \$119,578.

The Ohio school funding formula is in part based on student enrollment, and Westlake City School enrollment has been stable. Initial projections for the fiscal 2012 (June 30) school year show enrollment at 4,043 students. Projections for future years show slight increases in enrollment, growing to 4,109 students in fiscal 2015.

District general fund reserves historically have been very strong. On a modified accrual basis, the district had a \$1.9 million surplus in fiscal 2010, increasing the district's total fund equity to \$20.8 million, of which the unreserved portion was \$13.2 million, or a very strong 27.5% of expenditures. The district budgets on a cash basis, and cash results for fiscal 2010 show a \$2.8 million surplus, increasing unreserved cash reserves to \$20.3 million, or 42% of expenditures. While management has reported that total general fund cash increased \$1.3 million in fiscal 2011, unreserved levels remained stable.

Given the district's need to hold referenda for levy increases as expenditures rise, not including any new levy money, the district's five-year financial forecast shows decreasing reserves. Taking into account the phase-out of tangible personal property tax revenues and a \$4.4 million reduction in state aid, the district projects cash reserves to decrease to \$18.1 million in fiscal 2012 and decrease each year to a negative \$12.4 million in fiscal 2015. However, this forecast does not include possible employee concessions, other operational savings, or increased revenues due to the relocation of American Greetings that may occur. The district expects to hold a referendum as early as 2013 for new operating levy money.

Voter support for operations has been good since 2005. From 1980-2005, 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. District officials have regular communication with voters, including a regular newsletter, a district-run television station, and a citizens advisory committee.

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.

We consider the district's overall net debt burden moderately high at 3.7% of market value and \$4,393 per capita. Amortization is below average, with 30% of direct debt to be retired within 10 years and 52% within 20 years, including mandatory sinking fund deposits. Debt service carrying charges were low at 5% of total governmental expenditures less capital outlay in fiscal 2010. The district has no immediate plans to issue additional debt but may issue debt for elementary school improvements within 10 years.

The district contributes to the School Employees Retirement System (SERS), a cost-sharing, multiple-employer defined benefit pension plan. The district's required contributions for pension obligations to SERS for fiscal 2010, was \$1 million, or 1.8% of total expenditures. The district contributed 44.8% of this contribution in fiscal 2010 and will contribute the remainder in fiscal 2011. The district paid 100% of required payments for fiscals 2009 and 2008. The district also participates in the State Teachers Retirement System of Ohio (STRS Ohio), a cost-sharing, multiple-employer public employee retirement plan. The district's required contributions for pension obligations to STRS Ohio for the fiscal 2010, was \$3.1 million, or 5.5% of total expenditures. The district contributed 82.6% of this contribution in fiscal 2010 and will contribute the remainder in fiscal 2011. The district paid 100% of required payments for fiscals 2009 and 2008. The district reported that it has also set aside \$1.7 million in reserves for unexpected retirement obligations.

## Outlook

The stable outlook reflects Standard & Poor's expectation that officials will continue to successfully manage the district's levy cycle in an effort to maintain stable financial operations and strong general fund reserves. Although we

do not expect the rating to change within the outlook's two-year horizon, we recognize that the rating could be pressured in future years if voters do not support levy requests, coupled with the district's potential inability to make the sufficient budgetary adjustments required to maintain reserves consistent with the current rating.

## **Related Criteria And Research**

USPF Criteria: GO Debt, Oct. 12, 2006

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