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Summary:

Southern Local School District, Ohio; School State Program

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Credit Profile

Southern Local Sch Dist GO State Credit Enhancement

Long Term Rating

AA/Stable

Affirmed

School Issuer Credit Rating

A+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term enhanced program rating and 'A+' issuer credit rating (ICR) on Southern Local School District, Ohio's series 2010 general obligation (GO) bonds. The enhanced program rating reflects the district's eligibility for, and participation in, the Ohio credit enhancement program. The outlook on both ratings is stable.

The ICR reflects our view of the district's:

- Adequate economic indicators,
- Very strong reserve levels,
- Good voter support of levy requests, and
- Low debt levels.

Partly offsetting the above strengths, in our view, are the district's limited local economy and above-average unemployment.

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

Southern Local School District serves an 85-square-mile area in Meigs County, Ohio, along the Ohio River in southeast Ohio. The district's estimated population is 4,684. The local economy is largely agricultural, and most of the larger employers are service related, including two nursing facilities. We consider median household and per capita effective buying incomes for district residents to be adequate, at 86% and 72% of the national levels, respectively. The 2012 Meigs County unemployment rate was 11.8%, above the state's 7.2% average.

District enrollment was 740 in the 2013-2014 school year. Since the 2009-2010 school year, enrollment has decreased by 31 students, or 4%. Management attributes the recent decline in enrollment to additional students leaving the district through open enrollment, a tuition-based program in which students have the option to attend schools outside of their home district. Management projects enrollment will remain stable during the next few years.

Assessed valuation (AV) increased by approximately 17% in fiscal years 2010 to 2013 to \$86.4 million, largely because of increasing agricultural land values, as well as new commercial property. Management believes AV will continue to increase during the next several years. Estimated market value totals \$246.8 million, or \$52,697 per capita, which we

consider adequate. In our view, the tax base is moderately concentrated, with the six leading taxpayers making up 37.4% of AV. The largest taxpayer is Ohio Power Co., at 27% of AV.

The district has maintained a stable financial position, in our opinion. In fiscal years 2011 and 2012, on a generally accepted accounting principles (GAAP) basis, the district posted general fund surpluses of \$436,988 and \$193,094, respectively. The district's available GAAP general fund balance at the end of fiscal 2012 was \$1.95 million, or 30.4% of general fund expenditures, which we view as very strong. On an unaudited GAAP basis, the district posted a \$364,000 deficit in fiscal 2013. The deficit reduced the available fund balance to about \$1.6 million, or 22.9% of expenditures, which we still view as very strong. In fiscal 2014, the district anticipates that its cash balance will decrease between \$100,000 and \$125,000. The district's most recent five-year forecast (cash basis) shows the district will continue to draw down reserves before reserves turn negative at the end of fiscal 2016. Nevertheless, the district is committed to maintaining reserves in excess of its informal \$750,000 target. Management currently has no plans to seek an operating levy request during the next several years, but will make the necessary budgetary adjustments to maintain reserves in accordance with the district's target. In our view, voter support in the district has historically been good. District voters have approved the past seven new and renewal operating levy requests, most recently a 4.0 mill renewal levy in November 2013.

Southern Local School District's management practices are considered "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

In our view, the district's overall debt burden is low, at 2.5% of market value and \$1,301 per capita. Carrying charges for the district in fiscal 2012 were low, in our opinion, at 5.2% of total governmental funds expenditures. Amortization is average, with 50% of principal scheduled to retire within 10 years. The district currently has no additional debt plans.

The district contributes to the School Employees Retirement System (SERS) and the State Teachers Retirement System of Ohio (STRS Ohio), both cost-sharing, multiemployer pension plans administered by the state. The district contributes the required amounts to these plans annually, and in fiscal 2012 they totaled an estimated \$593,000, or 5.8% of total governmental fund expenditures. Other postemployment benefits (OPEBs), including retiree health care, are provided through SERS and STRS Ohio, so the district has no direct OPEB liability.

Outlook

The stable outlook on the program rating reflects our view of the strength of Ohio's state aid intercept structure. The stable outlook on the ICR reflects our view of the district's trend of good voter support for operating levies and our anticipation that management will make the necessary adjustments to maintain at least strong reserves. Although we do not anticipate changing the rating within the two-year outlook horizon, if unexpected pressures such as enrollment decline lead to a significant draw on reserves, we could lower the rating. In our view, the district's limited local economy, represented by only adequate economic indicators and high unemployment, precludes upward rating potential.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

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