

CREDIT OPINION

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Northmont City School District, OH

Update to credit analysis

Summary

[Northmont Local School District](#) (Aa2) benefits from a moderately sized tax base in the suburban [Dayton](#) (Aa2 stable) metro, strong reserves despite anticipated draws due to its levy cycle and stable enrollment. The district has excellent history of voter support for both new and renewed levies supported by management's proactive strategy for gaining community support. Debt will likely remain above average and the district is exposed to underfunded state cost sharing pension plans. The district's median family income is slightly above the nation, but lower than the median for other highly rated entities.

Credit strengths

- » Healthy operating fund balance and liquidity
- » Strong history of voter support for new and renewed tax levies

Credit challenges

- » Above average debt burden with slow principal amortization
- » Exposure to two significantly underfunded pension plans

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Material tax base expansion coupled with rising wealth and income indices
- » Significant moderation of debt and/or pension burdens

Factors that could lead to a downgrade

- » Narrowing of fund balance and liquidity
- » Increases to debt and pension burden

Key indicators

Exhibit 1

Northmont City School District, OH	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$1,787,254	\$1,784,517	\$1,795,401	\$1,872,437	\$1,880,484
Population	34,674	34,757	34,574	34,640	34,640
Full Value Per Capita	\$51,544	\$51,343	\$51,929	\$54,054	\$54,286
Median Family Income (% of US Median)	110.0%	109.7%	109.6%	107.2%	107.2%
Finances					
Operating Revenue (\$000)	\$52,160	\$54,622	\$57,325	\$59,954	\$59,747
Fund Balance (\$000)	\$8,086	\$9,857	\$14,611	\$20,959	\$24,241
Cash Balance (\$000)	\$12,414	\$14,908	\$18,356	\$25,106	\$29,531
Fund Balance as a % of Revenues	15.5%	18.0%	25.5%	35.0%	40.6%
Cash Balance as a % of Revenues	23.8%	27.3%	32.0%	41.9%	49.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$53,792	\$53,322	\$52,935	\$54,420	\$54,964
3-Year Average of Moody's ANPL (\$000)	\$199,847	\$193,301	\$208,647	\$210,714	\$204,327
Net Direct Debt / Full Value (%)	3.0%	3.0%	2.9%	2.9%	2.9%
Net Direct Debt / Operating Revenues (x)	1.0x	1.0x	0.9x	0.9x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	11.2%	10.8%	11.6%	11.3%	10.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.8x	3.5x	3.6x	3.5x	3.4x

Source: audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Northmont City School District encompasses 44 square miles primarily within [Montgomery County](#) (Aa1) in southwest Ohio. The district includes the cities of Englewood, Clayton, Union, Phillipsburg and Clay Township and has a population of an estimated 34,640 residents. Operating eight school facilities, the district provides pre-K through twelfth grade education to 5,176 students in the 2019-2020 school year.

Detailed credit considerations

Economy and tax base: moderately sized residential tax base in Dayton metro

The district's tax base and local economy will continue to benefit from its position adjacent to the Dayton International Airport and near the Wright Patterson Airforce. Currently valued at a moderately sized \$1.9 billion, Northmont's tax base continues to exhibit stagnant valuation growth and remains 5% below its 2009 pre-recession peak. The base is primarily comprised of residential property (82% of 2019 assessed value), with a moderate amount of commercial (12%) and agricultural (4%) real estate. The district has ample land available in its western portion along I-70, while its area closer to downtown Dayton is more mature and built out. Taxpayer concentration is modest as the top ten taxpayers account for just 4.9% of assessed value.

The regional labor market remains tied to the manufacturing and military sectors despite a recent focus on expanding into healthcare, higher education and logistics. Wright Patterson Airforce is by far the largest employer in the area with approximately 30,000 employees. The district's socioeconomic profile slightly exceeds the nation with median family income currently estimated at 107% of the US. Full value per capita is a moderate \$54,286. Montgomery County's labor force has been recovering in recent years, but still remains smaller than it was a decade ago. December 2019 unemployment rate stood at 3.7%, a rate near the state (3.8%) and nation (3.4%) for the same month.

Student enrollment has stabilized to between 5,100 and 5,200 students, and management anticipates stability over the next several years despite declines over the past decade. Because state aid is in part tied to enrollment, stable enrollment will help to provide revenue predictability. The district does not accept open enrollment into the district.

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Financial operations and reserves: strong reserves inclusive of anticipated draws due to levy cycle

Northmont's financial position is likely to remain healthy over the next several years given its conservative budgeting practices and excellent voter support for local levies. After six consecutive general fund operating surpluses, its fiscal 2019 year-end fund balance rose to \$24.2 million, equal to 40.6% of revenue. We typically consider debt service funds as operating funds but have not included it in our metrics for the district because it is not segregated in its audit. The debt service fund held approximately \$1.8 million in restricted fund balance at the end of fiscal 2019.

For fiscal 2020, the district has budgeted for a \$3.1 million draw on fund balance based on flat revenues and growing expenses. However, expenses are coming in lower than budgeted and the district received unbudgeted health and wellness grants from the state that will likely reduce the draw to \$1.4 million. The district is also budgeting for a \$6.6 million draw in fiscal 2021, but management anticipates beating the forecast by at least \$1.5 million. The district has beaten its forecast for each of the previous three years, adding to fund balance beyond budget by roughly \$2-3 million each year.

The district's five-year forecast depicts operating deficits to continue in fiscal 2022 and fiscal 2023. Management intends to begin the planning phase for new money requests the first year that expenditures outpace revenue and has no current plans to request new money. Additionally, the district plans to ask voters to renew a property tax levy on a continuing basis in late 2020 to reduce exposure to renewal risk in the future.

LIQUIDITY

Liquidity is similarly strong with net cash of \$29.5 million or 49.4% of revenue in fiscal 2019. The primary difference between cash and fund balance is \$4.9 million in accrued wages and benefits payable at the end of the fiscal year, although this figure is relatively stable each year.

Debt, pensions and OPEB: somewhat above average debt, exposure to underfunded pensions

Debt will remain slightly above average for many years given slow amortization, and the district will remain exposed to underfunded cost sharing pension plans. The district developed a facilities master plan spanning over 10 years, which includes two phases. The district approved a bond referendum in 2011 to build a new high school and early childhood center. At the time of the Series 2020 refunding, outstanding debt totaled \$50.0 million or 2.7% of full value and 0.8x revenue stemming primarily from the phase 1 debt. The district plans to issue additional debt around 2025 for phase 2, which includes a new elementary school building. The additional debt is estimated at \$12 million. In addition, the district maintains levies to support capital costs supporting the accumulation of \$4.9 million in its permanent improvement fund and \$1 million in school maintenance funds.

The Moody's adjusted net pension liability (ANPL), which uses a market rate to discount liabilities, was a high 10.9% of full value and 3.4x revenue in fiscal 2019. Fixed costs, across all governmental fund, inclusive of debt service and retirement contributions, were a moderate 14% of revenue.

DEBT STRUCTURE

Debt is fixed rate and amortizes slowly with roughly 17% of principal paid in the next ten years. Other than a small amount of capital leases, the debt is general obligation unlimited tax (GOULT), secured by the district's full faith and credit pledge and ability to raise ad valorem property taxes without limit as to rate or amount.

DEBT-RELATED DERIVATIVES

The district has no exposure to any debt-related derivative.

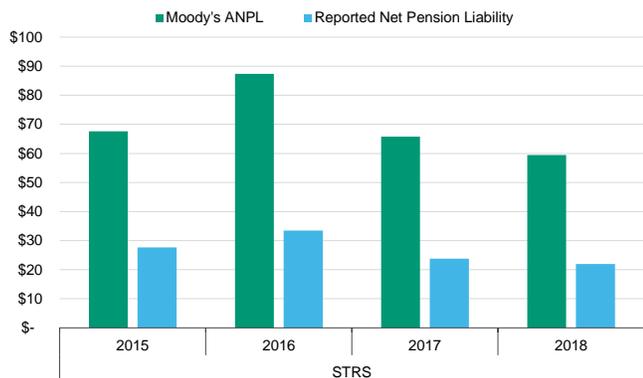
PENSIONS AND OPEB

District employees are members of the Ohio State Teacher Retirement System (STRS) and the Ohio School Employees Retirement System (SERS). There is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans. In 2012 and 2017, the 30-year target was breached for STRS and the state legislature acted by reducing benefits and increasing employee contributions. The 2012 and 2017 reforms did not increase employer contributions from participating governments. As of fiscal 2018, the amortization periods for STRS and SERS were 17.8 and 26 years, respectively.

The combined Moody's adjusted net pension liability (ANPL) for STRS and SERS fell by a considerable 23% between 2016 and 2017—primarily the result of the suspended cost-of-living-adjustments implemented in 2017, but also because of strong investment returns. On a reported basis, combined net liability of the two plans fell by 27.1% between 2016 and 2017. The combined ANPL for the plans declined by 9% in fiscal 2018, benefiting from an increase in the market-based interest rate and continuation of the COLA suspension.

Exhibit 2

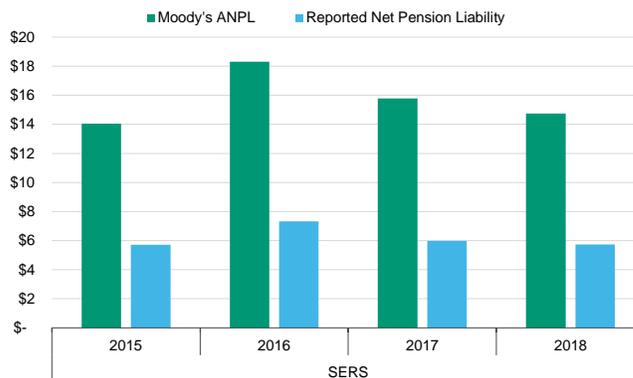
COLA suspension decreases STRS unfunded liabilities (\$ billions)



Source: STRS, Moody's Investors Service

Exhibit 3

COLA suspension decreases SERS unfunded liabilities (\$ billions)



Source: SERS, Moody's Investors Service

STRS unfunded liabilities may decline over the short-term because statewide contributions were 129% of the amount necessary to tread water¹ in fiscal 2018. Contributions to SERS were only 88% of tread water, indicating that unfunded liabilities in the plan are likely to grow. The tread water indicator is however sensitive to assumed rates of return, which in the case of STRS and SERS are above average at 7.45% and 7.5%, respectively.

Other postemployment benefit obligations do not pose a material credit risk. The district contributed \$201,000 in fiscal 2019, equivalent to a low 0.3% of operating revenue. The district reported a net OPEB liability of \$3.0 million in fiscal 2019. The district's adjusted net OPEB liability, using adjustments similar to how we measure pension liabilities, totaled \$4.4 million, equivalent to a low 0.07x revenue.

ESG considerations

Environmental considerations are not a material credit driver for most school districts including Northmont. In May 2019, the district experienced severe tornadoes, although the credit impact of this disaster was minimal given no damage to school buildings and no major expected depreciation in the property tax base. The Montgomery County auditor estimated that the tornado impact to Northmont City School District will only lead to a \$72,000 loss in revenue.

Social considerations are material for Ohio school districts, including Northmont. The district's population and demographic trends are largely level supporting stable enrollment, an input into its allocation of state aid. Resident incomes that rank slightly better than the nation provide local tax capacity.

The district's governance is strong, benefitting from regular voter support for both new and renewed levies. The district's election history is excellent as voters have approved the last 17 levy referendums since 1994, including a new 5.9-mill current expense levy in March 2016. The district successfully converted a 5.9 mill levy and a 9.0 mill levy into continuing levies that will no longer require renewal. The district is planning to similarly convert its last renewable levy into a continuing levy in late 2020. State aid and property taxes are the district's largest revenue sources, comprising 49% and 46% of general fund revenue, respectively.

Ohio school districts have an Institutional Framework score of "A", which is moderate. The sector's major revenue sources are property taxes and state aid, with wealthier districts relying more heavily on property tax. Local property tax do not have a rate cap, but can be increased with voter approval only. Some school districts also levy a local income tax, which requires voter approval. Revenues and expenditures tend to be predictable. Ohio has public sector unions, which can limit the ability to cut expenditures.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 4

Northmont City School District, OH

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,880,484	Aa
Full Value Per Capita	\$54,286	A
Median Family Income (% of US Median)	107.3%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	40.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	30.2%	Aaa
Cash Balance as a % of Revenues	49.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	30.8%	Aaa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.7%	A
Net Direct Debt / Operating Revenues (x)	0.8x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	10.9%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.4x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: audited financial statements, US Census Bureau, Moody's Investors Service

Endnotes

1 Our "tread water" indicator measures the annual contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year.

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