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Summary:

Mt. Gilead Exempted Village School District, Ohio; School State Program

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Credit Profile		
US$5.055 mil sch facs const and imp rfdg bnds ser 2015 due 12/01/2028		
Long Term Rating	AA/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term program rating and 'AA-' underlying rating for credit program to Mt. Gilead Exempted Village School District, Ohio's series 2015 unlimited-tax general obligation (GO) school facilities construction and improvement refunding bonds. The outlook is stable.

The 'AA' long-term program rating reflects our assessment of the district's eligibility for, and participation in, the Ohio State Aid Intercept program. The program provides school bonds with added security from a state aid withholding mechanism that has statutory provisions we consider strong. Upon state approval, the agreement between the state and local school district for program participation is irrevocable as long as any program debt is outstanding.

The district's unlimited-tax GO pledge secures the series 2015 bonds. Officials will use the bond proceeds to current refund the district's series 2005 GO bonds for interest cost savings.

The 'AA-' underlying rating for credit program reflects our view of the district's:

- Stable local economy based on agriculture, but with access to the broad and diverse Columbus metropolitan statistical area (MSA);
- Very strong financial operations that benefits from a more diverse revenue stream, and the ability to capture inflationary growth in the property tax base;
- Good financial management policies and practices, including a formal reserve policy; and
- Low overall net debt burden.

Partly offsetting the above strengths, in our opinion, are the district's income and wealth levels, which are below average compared with those of higher-rated peer entities.

Mt. Gilead Exempted Village School District, which serves an estimated population of 8,300, encompasses approximately 75 square miles of Morrow County, about 35 miles north of Columbus. The district includes the villages of Mt. Gilead and Edison, as well as seven townships.

The district itself is mostly agricultural, but residents have access to jobs throughout the county, including government and health care jobs. The leading private employers in the county include Cardington Yutaka Tech. (auto parts; 800 employees), Kroger Sav-On (grocery store; 100), and Ballie Lumber Co. (60). According to management, some residents also commute to the Columbus area for employment. The county unemployment rate averaged 5.8% in 2014, slightly above the state's 5.7% average but below the nation's 6.2% average. We consider the district's median household effective buying income (EBI) good, at 99% of the national average, while per capita EBI is only adequate, at 86% of the national average.

The district's property tax base consists mostly of residential properties (62% of assessed valuation, or AV), followed by agricultural (27%) and commercial properties (9%). Although the district's residential values dropped following the 2008 recession, increases in agricultural values offset this; as a result, total AV remained stable after 2008, and then increased 8.1% during the 2014-2015 triennial update as a result of increases in agricultural values. The district reports that it has the ability to capture all growth in AV, both real and inflationary, when property taxes are levied, given that the district's effective tax rate cannot drop below an effective millage of 20 mills. This ability is referred to as the "20-mill floor". Officials are projecting 1% annual growth in AV during the next several years. Estimated market value totals $469.4 million, or $56,564 per capita, which we consider strong.

Since 2010, district enrollment has increased 5.8% to 1,413 students. According to management, the implementation of after-school programming as well as general recovery in the local economy have attracted families to the district. The district participates in open enrollment, but management reports that only a small number of students enter or leave the district on an annual basis. We anticipate stable enrollment for the next several years, which we view as a credit strength given that the district derives a majority of its operating revenue from enrollment-based state aid.

In our opinion, the district has maintained a strong financial position, partly as a result of the district's more diverse revenue stream as well as management's ability to effectively control expenditures. State aid revenue accounts for roughly 57% of general fund revenue, with property taxes (24%) and income taxes (9%) accounting for a majority of the remainder. On a generally accepted accounting principles basis, the district ended fiscal 2014 with an audited $177,000 general fund surplus. The surplus increased the available general fund balance to $3.2 million, or 25.5% of general fund expenditures, which we view as very strong. Officials report that attritional savings and a reduction in utility costs contributed to the positive results. In addition, the state increased foundational aid funding in fiscal years 2014 and 2015, resulting in an increase in revenue for the district.

On a cash basis of accounting, officials anticipate reporting a $200,000 general fund deficit in fiscal 2015. According to management, the deficit was the result of one-time vehicle purchases and severance payouts. Without these one-time costs, we believe the district would have been operationally balanced. We estimate that the deficit reduced the unreserved cash balance to about $2.5 million, or 21% of expenditures, which we consider strong on a cash basis. In addition to the general fund, the district has about $1 million in a self-insurance fund and $200,000 in a severance fund.

The state mandates that school districts in Ohio approve a five-year general fund forecast in May and October of each fiscal year. The forecasts are reported on a cash-basis of accounting, and are an important tool in the management of school finances. With increasing revenue, the district's May five-year forecast depicts operating surpluses in fiscal years 2016 to 2018. At the end of 2018, the unreserved cash balance is projected to increase to $3.8 million, or 29% of expenditures.

Because a large portion of school property tax levies in Ohio are based on a revenue level rather than on a rate that fluctuates with AV, districts must often seek voter approval for new levies as revenue becomes insufficient to keep up with rising costs. Because the district has been operating at the 20-mill floor, it has not needed to go to voters for a new property tax operating levy since 1989. In addition, in 2009 voters made the district's 0.75% income tax a continuing levy, further reducing the need for new revenue.

The district has a formal policy to maintain the unencumbered general fund balance at 8% of budgeted expenditures (30.4 days of cash). In addition, when the district's forecast depicts a negative cash balance 24 months from the current fiscal year, the policy stipulates that the board shall discuss possible new sources of revenue or expenditure reductions. With the current forecast showing a positive cash balance in 2019, the district has no plans to go to voters for a new levy. The district's projected ability to maintain strong reserves for the next several years, with no reliance on voter support, is a positive credit factor, in our opinion.

We consider the district's management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates our view that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. Under state guidelines, the district updates its five-year forecast twice a year. Management utilizes both historical trend analysis and an outside consultant when formulating revenue and expenditure assumptions. Management provides monthly budget-to-actual reports to the board, and can amend the budget as needed. The district has a long-term maintenance plan that is tied to its permanent improvement levy. In addition, technology and bus purchases are built into the district's five-year forecast. The district's investment policy mirrors state guidelines, and officials provide monthly reports on holdings and earning to the board. The district is in compliance with its 8% reserve policy.

The district's overall net debt burden is low, in our view, at 1.6% of estimated market value, or $930 per capita. Debt service carrying charges are also low, at 5.9% of total governmental fund expenditures, less capital outlay, in fiscal 2014. Amortization is rapid, with 76% of direct debt principal scheduled to mature within the next 10 years. We understand that the district has no major capital needs, and that therefore it has no plans to issue additional debt plans during the next several years.

The district contributes to the School Employees Retirement System (SERS) and the State Teachers Retirement System of Ohio (STRS Ohio), both cost-sharing, multi-employer pension plans administered by the state. The district contributes the required amounts to these plans annually, and such contributions totaled 6.3% of total governmental fund expenditures in fiscal 2014. 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 rating on the program rating reflects our view of the strength of the Ohio State Aid Intercept credit enhancement program.

The stable outlook on the underlying rating for credit program reflects our anticipation that the district will likely take the steps it deems necessary to maintain very strong reserves in the two-year outlook horizon. The outlook also reflects our view that the local economy will likely remain stable and management's indication that the district has no additional debt plans. Although the district is projecting surplus results, we could lower the rating should its financial position worsen significantly, leading to deterioration in reserves. We could raise the rating in case of substantial strengthening of economic indicators.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of July 22, 2015)		
Mount Gilead Exempted Vill Sch Dist		
Long Term Rating	AA/Stable	Rating Assigned
Underlying Rating for Credit Program	AA-/Stable	Rating Assigned

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