

CREDIT OPINION

7 December 2021

 Rate this Research

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Madeira City School District, OH

Update following upgrade to Aa1

Summary

The excellent credit profile of [Madeira City School District, OH](#) (Aa1) is rooted in its strong economic fundamentals, including its above average resident incomes, close integration within the dynamic [Cincinnati](#) (Aa2 stable) metropolitan area, and positive student enrollment trends. Additionally, the district's proactive management is dedicated to maintaining robust reserves and has shown a willingness to make timely requests to district voters for new levies to support operations. These factors help to balance the district's above average leverage comprised of outstanding debt and unfunded retiree benefit liabilities which will remain its most notable credit challenge.

On December 7, 2021 Moody's upgraded to Aa1 from Aa2 the district's issuer and general obligation unlimited tax (GOULT) ratings. The issuer rating reflects the district's ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features.

Credit strengths

- » Strong economic fundamentals including above average resident incomes and enrollment growth
- » Robust operating fund balance and liquidity
- » Solid voter support for new operating levies and bond referendums

Credit challenges

- » Mature community with limited space for future economic development
- » Above average combined leverage of outstanding debt and unfunded retiree benefit liabilities

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Further strengthening of economic fundamentals
- » Material moderation of long term leverage

Factors that could lead to a downgrade

- » Pronounced weakening of economic fundamentals including student enrollment
- » Sustained narrowing of operating fund balance or liquidity
- » Significant increases to long term leverage

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 1

Madeira City School District, OH

	2017	2018	2019	2020	Aa Medians
Economy					
Resident income	1871%	207.3%	209.2%	209.2	120.3%
Full value (\$000)	\$948,293	\$1,061,848	\$1,080,997	\$1,101,499	\$3,767,803
Population	8,929	9,151	9,200	9,200	32,239
Full value per capita	\$106,204	\$116,036	\$117,500	\$119,728	\$110,286
Enrollment	1,477	1,495	1,516	1,637	4,353
Enrollment trend	N/A	N/A	0.4%	3.5%	0.1%
Financial performance					
Operating revenue (\$000)	\$22,147	\$26,512	\$24,890	\$19,768	\$70,864
Available fund balance (\$000)	\$14,930	\$19,672	\$21,888	\$21,025	\$17,424
Net cash (\$000)	\$11,615	\$15,092	\$16,908	\$21,792	\$20,807
Available fund balance ratio	67.4%	74.2%	87.9%	106.4%	26.1%
Net cash ratio	52.4%	56.9%	67.9%	110.2%	31.0%
Leverage					
Debt (\$000)	\$23,100	\$22,338	\$21,563	\$23,821	\$48,829
ANPL (\$000)	\$88,015	\$67,066	\$61,769	\$71,972	\$92,102
OPEB (\$000)	N/A	\$5,528	\$1,337	\$1,443	\$10,438
Long-term liabilities ratio	N/A	358.1%	340.2%	491.9%	280.7%
Implied debt service (\$000)	\$1,812	\$1,716	\$1,646	\$1,572	\$3,402
Pension tread water (\$000)	\$2,217	\$1,421	\$1,300	\$1,311	\$3,018
OPEB contributions (\$000)	N/A	\$53	\$61	\$53	\$440
Fixed-costs ratio	N/A	12.0%	12.1%	14.9%	11.9%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Madeira City School District, OH's financial statements and Moody's Investors Service

Profile

Madeira City School District is located within [Hamilton County](#) (Aa2 stable) approximately 12 miles northeast of downtown Cincinnati. The district serves the 9,200 residents of the City of Madeira and is governed by an elected five-member board of education. The district currently operates three school facilities providing K through 12th grade education to roughly 1,650 students for the 2021-2022 school year.

Detailed credit considerations

Economy: strong economic fundamentals including positive student enrollment trends

Madeira City School District has strong economic characteristics which will likely be sustained over the long term given its position as an affluent bedroom community closely integrated within the diverse Cincinnati metropolitan economy. District residents have easy access to a variety of employment opportunities throughout the region and Hamilton County's unemployment rates have historically mirrored those of the state and nation overall. The district's strong housing market has resulted in ongoing tax base growth which continues to drive up the district's full value per capita, currently estimated at \$135,000. Median household income is similarly strong at 209% the national median. We expect redevelopment and appreciation of the district's residential real estate will be the main economic driver as the district has minimal available land for future development.

Despite being a mature community with minimal space for additional single family housing, the district's student enrollment trends are positive, which speaks to Madeira's solid market position. The district's fiscal 2022 enrollment of 1,648 students reflects a cumulative increase of roughly 11% over the last five years. The district does not offer open enrollment to students who reside outside of the district, which, combined with upcoming additions to its elementary school, should make continued enrollment growth manageable.

Financial operations: very healthy fiscal position supported by solid voter support for ballot initiatives

The district's track record of maintaining robust operating fund balance and liquidity will continue to be supported by voters' willingness to approve new operating levies periodically. The district is expected to record general fund operating surpluses over the

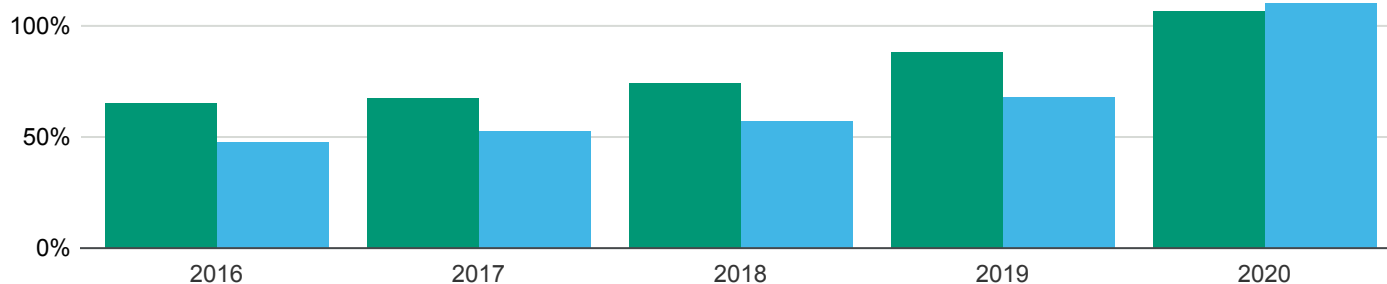
next several years following the approval of a new 5.2 mill operating levy at a November 2021 election. The ballot proposal also included a bond request to finance capital projects and was overwhelmingly approved by a 30 point margin. The levy will bring in \$2.6 in additional general fund revenue and does not expire. All of the district's current operating levies are continuous.

The passage of the levy demonstrates proactive management as the district posted a relatively large \$6.5 million general fund draw in fiscal 2020. The draw was inclusive of a \$3.1 million operating deficit combined with a transfer of an additional \$3.4 million to the district's permanent improvement fund to finance improvements to the district's auditorium. The general fund draw reduced available year-end reserves to \$12.5 million, equal to a still ample 68.8% of general fund revenue. Total available operating fund balance, inclusive of the district's general, permanent improvement and debt service funds, stood at \$21 million representing 106.4% of combined revenue.

Exhibit 2

Fund balance and cash balance as percentage of operating revenues

■ Available fund balance ratio (available fund balance / operating revenue) ■ Net cash ratio (net cash / operating revenue)



Source: Issuer financial statements; Moody's Investors Service

While audited results for fiscal 2021 are not yet available, management reports a \$1.3 million budgetary cash basis surplus in the general fund. Management projects that collections from the new operating levy will help the district achieve additional surpluses of \$1.4 million and \$1.8 million in fiscal years 2022 and 2023, respectively. District operations are primarily financed through property taxes (67% of fiscal 2020 operating revenue) with state aid (24%) making up the bulk of the remaining revenue.

Liquidity

The district's cash position is similar to its fund balance and will remain robust given management's goal of maintaining four to ten months of operating expenses in cash reserves. At the close of fiscal 2020 the district held \$21.8 million in operating fund cash, equal to 110.2% of revenue. The district's general fund cash position is estimated to have improved moderately since then based on the fiscal 2021 cash-basis results, though the district did utilize the majority of its permanent improvement fund liquidity for its auditorium project. The district has also received \$534,000 in COVID-related federal stimulus awarded through the American Rescue Plan Act. Management reports that it expects to use the federal funds for capital projects at its high school.

Leverage: above average combined leverage of debt, pension and OPEB liabilities

The district's above average combined leverage comprised of outstanding debt and unfunded retiree-benefit liabilities will remain a long term credit drag relative to similarly rated peers. The district is currently in the process of marketing \$7.5 million in GOULT bonds which will increase its total debt burden to \$28.4 million. Proceeds from the upcoming Series 2022 bonds will finance a 22,500 square foot two-story addition to the district's elementary school, along with an additional parking lot. District voters authorized the bonds in a November 2021 election. Management has no additional borrowing plans for the foreseeable future.

In addition to its debt, the district carries unfunded long term liabilities associated with its participation in two defined benefit cost-sharing pension and OPEB plans. The district's Moody's adjusted net pension liability (ANPL) and adjusted net OPEB liability are currently \$72 million and \$1.4 million, respectively. Total leverage, inclusive of debt and unfunded retiree benefit liabilities, is elevated at 5.2x operating revenue. In fiscal 2020 the district paid \$4.1 million in fixed costs, equal to a moderate 21% of operating revenue.

Legal security

The district's bonds, including the upcoming Series 2022 bonds, are general obligations of the district backed by its full faith and credit supported by its pledge and authority to levy ad valorem property taxes to pay debt service unlimited as to rate or amount.

Debt structure

All of the district's debt is fixed rate and amortizing. Its GOULT bonds are structured with even debt service over the next ten years, before significantly falling off between 2032 and final maturity in 2048. Principal amortization is relatively fast with 77% of outstanding bonds scheduled to be retired by 2032.

Debt-related derivatives

The district is not party to any debt related derivatives.

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. Despite the flexibility to contain the plan's liabilities, the district's exposure to the two plans will likely be a long term credit weakness relative to its similarly rated peers who participate in either stronger funded defined benefit pension plans or those who offer only defined contribution plans.

ESG considerations**Environmental**

Environmental risk is generally low for the local government sector and does not factor materially into the district's credit profile as the management of environmental issues largely fall to other units of government. Located in the southwestern corner of the state, Hamilton County has a continental climate with cold winters and warm and humid summers. Moody's affiliate Four Twenty Seven considers five environmental factors including extreme rainfall, water stress, heat stress, cyclone exposure and sea level rise. While Hamilton County has no or low risk for water stress, cyclone exposure, and sea level rise, it does have relatively high risk for heat stress and extreme rainfall events relative to counties nationally. The county maintains a five-year hazard mitigation plan to identify and mitigate areas of potential exposure. We do not anticipate environmental, climate, or weather related issues or events will impact the district's general operations for the foreseeable future.

Social

Social considerations that are factored for the district include the community's wealth and income characteristics, population trends, and access to basic services. Madeira City School District is an affluent residential community favorably located within a diverse employment base. While landlocked the district's population trends remain positive as it is estimated to be up nearly 6% since the 2010 Census. The district's increasing student enrollment points to the desirability of the community along with the district's competitive considerations. District residents have good access to housing, healthcare, higher education, and cultural institutions throughout the metropolitan area.

Governance

Madeira City School District exhibits solid governance based on district officials' proactive management of its operating levies and demonstrated ability to maintain robust reserves. Additionally, its enrollment growth and strong voter support for new debt and operating levies shows management's effectiveness in its academics and ability to communicate with constituents. These factors should help the district attract and retain human resources despite the competitive environment for teachers and support services professionals. The district does not negotiate with any organized union group; rather, it conducts an annual salary and benefit study which has resulted in annual salary increases of 2% over the past several years. The district participates in an insurance consortium and its annual increase for healthcare premiums has averaged 3.4% over the past five years.

Ohio school districts have an Institutional Framework score ¹ of A. Some districts are primarily funded by locally controlled property taxes, while others are primarily funded through state-controlled aid that is distributed according to a complex formula. Districts can request voter authorization for new and renewed property and income taxes. Voter support is disparate with some districts receiving

regular approval for requests while others struggle to receive voter approval. State aid has been increasing regularly for most districts in recent years, but it has occasionally been cut, kept flat or subject to formula changes.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district'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 school district credits.

Exhibit 3

Madeira City School District, OH

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	209.2%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	135,009	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	2.2%	10.0%	Aaa
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	106.4%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	110.2%	10.0%	Aaa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	516.1%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	14.9%	10.0%	Aaa
Notching factors			
Additional strength in local resources	0.50		
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa1

Sources: US Census Bureau, Madeira City School District, OH's financial statements and Moody's Investors Service

Appendix

Exhibit 4

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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