

## ISSUER COMMENT

17 January 2020

### RATING

**General Obligation (or GO Related) <sup>1</sup>**

Aa2 Stable

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# Cincinnati City School District, OH

## Annual Comment on Cincinnati City SD

### Issuer Profile

Cincinnati City School District is located in Hamilton County in the southwestern corner of Ohio. The county has a population of 808,703 and a high population density of 1,985 people per square mile. The county's median family income is \$71,692 (2nd quartile) and the November 2019 unemployment rate was 3.5% (3rd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are health services, professional/scientific/technical services, and manufacturing.

### Credit Overview

Cincinnati City SD has a very high quality credit position, and its Aa2 rating is a little stronger than the US school districts median of Aa3. Key credit factors include a robust financial position, a large tax base, a sizable debt burden, an elevated pension liability, and a somewhat weak wealth and income profile.

**Finances:** The district's financial position is healthy when compared to the assigned rating of Aa2. The cash balance as a percent of operating revenues (30.1%) is on par with the US median, and grew modestly from 2014 to 2018. Additionally, Cincinnati City SD's fund balance as a percent of operating revenues (40.2%) is stronger than other Moody's-rated school districts nationwide.

**Economy and Tax Base:** Overall, the district has a satisfactory economy and tax base in comparison to its Aa2 rating. The total full value (\$18.5 billion) greatly exceeds the US median, and increased from 2014 to 2018. On the contrary, the full value per capita (\$55,520) is slightly below the US median. Furthermore, the median family income equals 71.9% of the US level.

**Debt and Pensions:** Cincinnati City SD's debt and pension burdens are heavy overall when compared to the Aa2 rating assigned. The district's net direct debt to full value (3%) is materially higher than the US median. That said, this percentage declined from 2014 to 2018. Additionally, the Moody's-adjusted net pension liability to operating revenues (2.7x) unfavorably is materially above the US median.

**Management and Governance:** Ohio school districts have an institutional framework score <sup>3</sup> 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.

## Sector Trends - Ohio School Districts

Ohio school districts generally face a stable operating environment. The state's current biennium budget increases total school funding by 3% over fiscal years 2018 and 2019; however, the state is targeting the latest increases toward lower-wealth districts. School levy elections are becoming increasingly important throughout the state, and districts with strong voter support for new taxes can best align revenues with expenditures. Competition from charter schools is concentrated in large metropolitan areas. School district pension burdens are high, but will fall due to a recent suspension of cost of living adjustments.

EXHIBIT 1

### Key Indicators <sup>4</sup> <sup>5</sup> Cincinnati City SD

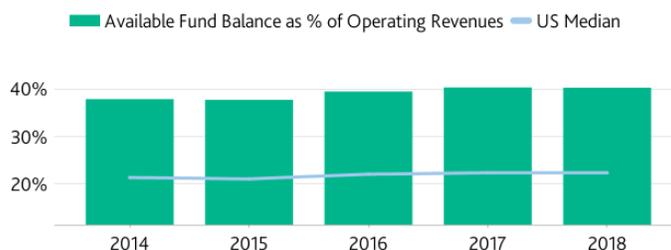
	2014	2015	2016	2017	2018	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$16,931M	\$17,187M	\$17,298M	\$17,475M	\$18,474M	\$1,919M	Improved
Full Value Per Capita	\$51,149	\$51,848	\$52,086	\$52,516	\$55,520	\$87,328	Improved
Median Family Income (% of US Median)	72%	71%	72%	72%	72%	101%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	37.8%	37.7%	39.4%	40.3%	40.2%	22.3%	Stable
Net Cash Balance as % of Operating Revenues	25.5%	28.7%	20.0%	22.8%	30.1%	27.2%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	3.9%	3.7%	3.5%	3.3%	3.0%	1.6%	Improved
Net Direct Debt / Operating Revenues	1.27x	1.16x	1.07x	0.94x	0.90x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	10.0%	8.1%	8.0%	9.2%	9.1%	3.3%	Improved
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	3.23x	2.56x	2.42x	2.63x	2.73x	1.48x	Improved
	2014	2015	2016	2017	2018	US Median	
<b>Debt and Financial Data</b>							
Population	331,025	331,499	332,113	332,757	332,757	N/A	
Available Fund Balance (\$000s)	\$197,723	\$205,776	\$225,570	\$247,097	\$248,285	\$9,391	
Net Cash Balance (\$000s)	\$133,076	\$156,602	\$114,580	\$139,971	\$185,530	\$11,164	
Operating Revenues (\$000s)	\$522,568	\$546,146	\$571,950	\$613,189	\$616,965	\$42,583	
Net Direct Debt (\$000s)	\$664,965	\$635,670	\$609,365	\$576,945	\$553,900	\$29,872	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$1,688,743	\$1,396,162	\$1,384,378	\$1,610,476	\$1,681,737	\$62,410	

Source: Moody's Investors Service

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.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

## Available fund balance as a percent of operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

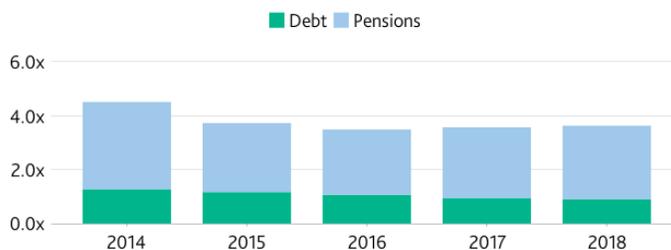
## Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
  - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
  - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
  - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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