

Research

Summary:

Dublin City School District, Ohio; General Obligation

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Credit Profile

US\$55.55 mil Sch fac const and imp bnds (GO- unlted tax) ser 2022 due 12/01/2048

Long Term Rating

AAA/Stable

New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Dublin City School District, Ohio's \$55.55 million series 2022 unlimited-tax general obligation (GO) school facilities construction and improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the district's previously issued GO debt. The outlook is stable.

Series 2022 bond proceeds will be used for renovations to the district's three high schools.

The series 2022 bonds are secured by the district's full faith, credit, and resources, and revenue from ad valorem property taxes without limit to rate or amount following a voter-approved levy in November 2018 that received 58% support. This is the final issuance of \$195 million in authorized debt.

Some of the district's debt outstanding is backed by the full faith, credit, and resources but with revenue from ad valorem property taxes within the state's 10-mill limitation. We rate the limited-tax GO debt at the same level as our view of the district's general creditworthiness, as reflected by the district's unlimited-tax GO pledge.

Dublin City School District's GO bonds outstanding are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, the district has a predominantly locally derived revenue source, independent taxing authority, and independent treasury management from the federal government.

Credit overview

In our view, the district's status as a desirable suburb within the fast-growing Columbus metropolitan area, with correspondingly strong incomes and market values, is a key credit strength. This desirability, along with a strong academic reputation, has attracted significant enrollment growth, which is projected to continue. Given that the district is more reliant on property taxes than on per pupil state aid, we believe that successful management of the levy cycle, which includes gaining voter support for new levies as well as the continued use of long-term planning, is vital for the district to manage growth pressures. The stable outlook reflects our expectation that the district will maintain very strong reserves by making the adjustments it deems necessary as enrollment steadily increases and facility demands continue to grow.

The 'AAA' rating further reflects our view of the district's:

- Large and diverse tax base with a mixture of residential and commercial properties;
- Maintenance of very strong reserves, which totaled \$168.5 million, or 76.4% of expenditures, at the end of 2021 on a modified accrual basis;
- Good financial policies and strong voter support, which is crucial given its reliance on the levy cycle; and
- Moderate debt burden, supported by ongoing tax base growth, and manageable pension liabilities.

Environmental, social, and governance

We view the district's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile as in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the district is unable to successfully manage enrollment pressures or the levy cycle, leading to a significant reduction in reserves.

Credit Opinion

Wealthy suburb of Columbus experiencing continued residential and commercial growth

Dublin City School District, situated 16 miles northwest of Columbus, covers 49 square miles within Delaware, Franklin, and Union counties. Since it became a city in 1987, Dublin has seen significant population growth, making it the second-largest city in Franklin County. In addition to a strong residential base, the city has developed a large commercial and industrial base with more than 3,000 businesses. The city's largest business sectors include information technology, biomedical, and health care services, as well as business support services. Dublin is also home to various corporate headquarters, including Cardinal Health and The Wendy's Co. District residents have extensive job opportunities throughout an expanding employment base, both in Dublin and the Columbus metropolitan area. The Franklin County unemployment rate in October 2021 was 3.7%, on par with the state rate of 3.8% for the same period. We expect the tax base to continue to expand and wealth and income levels to remain strong.

Good voter support and financial management bolster strong financial position amid growing enrollment

State-shared revenue, which is partly based on enrollment, accounted for only 8.7% of general fund revenue in 2021. The pandemic caused a drop in enrollment for the 2020-2021 school year, but enrollment has rebounded this school year. Enrollment continues to grow and, with the help of third-party projections, officials estimate that the student base will increase by 1,300 students over the next 10 years. The district does not participate in the state's open enrollment program.

Enrollment growth projections account for both current residential developments and a large amount of future developable land, which is primarily concentrated in the northwest corner of the district. To accommodate capacity

needs, the district recently constructed two elementary schools and one middle school and converted former office buildings to house its high school career exploration academies and a centralized preschool. This bond issuance will expand the district's high schools. Management anticipates starting a new master facilities plan soon to explore future capacity needs.

Property taxes are the district's largest revenue source, at more than 83% of 2021 revenue. The passage of an operating levy in November 2018 has allowed the district to manage enrollment growth while building reserves. The district's five-year forecast depicts another surplus for fiscal 2022, increasing general fund reserves to \$112.1 million, or 47% of expenditures, which we consider very strong (on a cash basis of accounting).

A large portion of school property tax levies in Ohio are based on a revenue level that doesn't fluctuate with changes in assessed value. This creates what is known as the levy cycle, whereby districts must often seek voter approval for new levies as revenue becomes insufficient to match rising costs. Therefore, voter support is usually a key factor in the maintenance of strong district finances. The district's five-year forecast projects a use of cash beginning in fiscal 2023, reflecting the downward side of the levy cycle. According to management, the district will consider going to voters in 2024 for a new levy. Overall, we believe the district's voter history has been strong. Since 2000, voters have approved five of six bond issues and five of six operating levies. The only defeat occurred in November 2011, the first time the district approached voters after the Great Recession. In our view, if future ballot requests are unsuccessful and management is unable to reduce costs to balance operations, the rating could come under pressure.

On a generally accepted accounting principles basis, the district's audit shows a deficit in fiscal 2020, but this reflects a timing issue in that the county's property tax deadline was extended because of the pandemic. Correspondingly, the fiscal 2021 audit shows an artificially large surplus.

The district has been allocated about \$16.5 million in federal relief funding. The district has used this funding for technology purchases, learning loss and mental health initiatives, and staffing for the online academy. The funding will cover the online academy costs through 2024, at which point the district will re-evaluate the program. To be conservative, the district has built these costs into its five-year forecast.

Good financial management assessment

The district budget process includes a very detailed line-by-line analysis for each department and has many years of prior information with emphasis on the past three years. The district has consulted with outside sources to assist with enrollment, staffing, and facility needs. The budget can be amended as needed and the board receives a monthly budget to actual report. In accordance with state law, the district maintains a formal, five-year forecast, which is updated at least twice per year. In addition to a master facilities plan, the district has a capital maintenance plan that is tied to its permanent improvement levy and goes through 2027. The district has its own investment policy and reports on performance and holdings on a monthly basis. Officials lack a formal debt policy but adhere to state guidelines. The district does not have a formal reserve policy but informally targets to maintain at least one to two months of operating expenses. From a practical standpoint, the district does not plan to draw down reserves to this level, but rather uses it as a target in helping to determine when to approach voters for new levies or make expenditure reductions. The district has taken steps to mitigate cybersecurity risk, such as obtaining cyber insurance.

Moderate debt burden with capacity for additional debt

Including the series 2022 issuance, the total direct debt burden is about \$230 million. We consider overall net debt moderate on a per capita basis and in relation to the tax base. We believe the district will likely issue additional debt in the future, but it has not finalized any plans and will depend on the outcome of the next master facilities plan. Principal and interest payments on previously issued debt are front-loaded, so we believe the repayment schedule will allow for additional debt in the future if growth continues as anticipated.

The district's series 2021A and 2021B GO refunding bonds were privately placed with Key Government Finance Inc., but there are no permissive events of default or acceleration clauses.

Manageable pension and other postemployment benefits liabilities

Pension and OPEB costs are manageable, and a statutory funding framework and recent improvements in plan assets mitigate risks for unsustainable escalation.

Dublin City School District participated in the following plans as of June 30, 2021:

- Ohio State Teachers' Retirement System (STRS): 87.8% funded, using a 7.00% discount rate, with a proportionate share of the plan's net pension liability of \$230.4 million
- Ohio State Employees Retirement System (SERS): 82.9% funded, using a 7.0% discount rate, with a proportionate share of the plan's net pension liability of \$57.3 million
- OPEB (STRS): 174.7% funded, using a 7.0% discount rate, with a proportionate share of the plan's net OPEB asset of \$16.7 million
- OPEB (SERS): 24.1% funded, using a 2.27% discount rate, with a proportionate share of the plan's net OPEB liability of \$18.6 million

Amid strong investment performance, contributions for both plans have met or have nearly met our minimum funding progress metric, meaning the district has made progress at paying down its unfunded liability. This occurred despite the discount rate for both plans being reduced to 7%, increasing the present value of liabilities. We still consider the discount rate elevated, leading to the potential for contribution volatility. Contribution growth beyond fiscal 2021 is likely under the level-percent-of-pay amortization basis, though trends are likely to slow at least in the near term given the improvement in plan assets. While it includes data from the prior valuation, the report "Pension Spotlight: Ohio," published Jan. 7, 2021, contains additional information on the state's pension and OPEB plans.

Dublin City School District Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population				91,505	90,645
Median household EBI as % of U.S.	Very strong			141	145
Per capita EBI as % of U.S.	Very strong			149	156
Market value (\$000s)		11,852,651	11,706,843	10,147,746	9,883,037
Market value per capita (\$)	Extremely strong	129,530	127,937	110,898	109,030

Dublin City School District Key Credit Metrics (cont.)

	Characterization	Most recent	Historical information		
			2021	2020	2019
Top 10 taxpayers as % of taxable value	Very diverse	4.6	4.6	4.8	4.8
Financial indicators					
Total available reserves (\$000s)			168,537	99,475	135,129
Available reserves as % of operating expenditures	Very strong		76.4	47.2	65.4
Total government cash as % of governmental funds expenditures			61.6	67.2	101.3
Operating fund result as % of expenditures			31.2	(16.9)	8.7
Financial management assessment	Good				
Enrollment		16,684	16,311	16,759	16,412
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	3.1	3.1	3.6	4.0
Overall net debt per capita (\$)	Moderate	3,998	3,994	3,993	4,401
Debt service as % of governmental funds noncapital expenditures	Moderate		8.4	15.8	15.8
Direct debt 10-year amortization (%)	Slower than average	43	48	48	53
Required pension contribution as % of governmental funds expenditures			7.0	6.5	7.3
OPEB actual contribution as % of governmental funds expenditures			0.1	0.1	0.2
Minimum funding progress, largest pension plan (%)		122.2	122.2	94.1	96.3

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of February 1, 2022)

Dublin City Sch Dist rfdg bnds (tax-exempt) (GO - unltd tax)		
Long Term Rating	AAA/Stable	Affirmed
Dublin City Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed
Dublin City Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed
Dublin City Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed

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