

CREDIT OPINION

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Fairview Park City School District, OH

Update to credit analysis

Summary

[Fairview Park City School District](#) (Aa2 GOULT) has a solid credit profile driven by a built out tax base that benefits from its location in the [Cleveland](#) (A1 stable) metro area and a healthy financial profile supported by strong reserves despite planned drawdown. The main credit challenge for the district is an elevated debt and pension burden.

We expect the district's modestly sized tax base to remain stable given that it is currently built out, nearly 90% residential, and benefits from its proximity to Cleveland. The district's current valuation of \$1.2 billion has averaged 3.8% annual growth over the last five years. Future growth will however remain dependent on redevelopment and appreciation of existing property. The district's residents have a slightly above average income profile with median family income of 114.3% of the nation; however, this number trails rating category medians. Enrollment for the district has been modestly declining with a 2.1% decline in students over the last five years.

The financial profile of the district is expected to remain healthy despite recent planned drawdown for capital needs. The district's unaudited fiscal 2020 results reflect a decline in the general fund reserves of \$206,000 to approximately \$14 million, or a still robust 63.8% on fiscal 2020 unaudited revenue. The district's fiscal 2021 budget includes a draw of nearly \$1 million due to a combination of state aid cuts and capital transfers of \$1 million. The district will be going to voters in November 2020 for a new current expense levy. The district is optimistic it will pass given strong voter support for emergency and debt levies over the last 15 years. If passed, district officials report it would generate \$3.4 million annually, which would help offset the continued transfers for capital projects and possible state aid cuts.

The district's debt burden is expected to remain elevated given slow principal amortization. The district's debt burden, following an upcoming refunding issuance, is 2.1x fiscal 2019 operating revenue and 4.1% to full value. Amortization of the debt is slow with 47.9% of principal paid off over the next ten years. However, the district reports no additional debt plans at this time. The Moody's three-year adjusted net pension liability (ANPL) for the district, our measure of a local government's pension burden that uses a market-based interest rate to value accrued pension liabilities, is \$83.3 million, or a high 7.1% of full valuation and 3.6x fiscal 2019 operating revenue. Fixed costs, consisting of debt service and retirement plan contributions, were moderate at approximately 19% of operating revenue in fiscal 2019.

Credit strengths

» Healthy liquidity and reserves

- » Strong voter history

Credit challenges

- » Elevated debt and pension burdens
- » Resident income levels that trail rating category medians

Rating outlook

Outlooks are generally not assigned to local government credits with this amount of debt.

Factors that could lead to an upgrade

- » Moderation of long term leverage
- » Significant tax base expansion and improvement in resident income indices

Factors that could lead to a downgrade

- » Growth in the debt burden
- » Deterioration of reserves
- » Tax base contraction

Key indicators

Fairview Park City School District, OH	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$969,701	\$1,045,934	\$1,026,331	\$1,029,113	\$1,165,813
Population	16,061	15,936	16,031	16,014	16,014
Full Value Per Capita	\$60,376	\$65,633	\$64,022	\$64,263	\$72,800
Median Family Income (% of US Median)	112.7%	111.4%	106.8%	114.3%	114.3%
Finances					
Operating Revenue (\$000)	\$23,290	\$24,969	\$20,574	\$23,426	\$22,909
Fund Balance (\$000)	\$22,529	\$24,055	\$21,173	\$19,163	\$14,901
Cash Balance (\$000)	\$20,455	\$20,396	\$19,789	\$18,573	\$14,480
Fund Balance as a % of Revenues	96.7%	96.3%	102.9%	81.8%	65.0%
Cash Balance as a % of Revenues	87.8%	81.7%	96.2%	79.3%	63.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$23,530	\$22,593	\$57,475	\$55,278	\$53,271
3-Year Average of Moody's ANPL (\$000)	\$72,307	\$70,098	\$79,264	\$82,928	\$83,273
Net Direct Debt / Full Value (%)	2.4%	2.2%	5.6%	5.4%	4.6%
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	2.8x	2.4x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	7.5%	6.7%	7.7%	8.1%	7.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	3.1x	2.8x	3.9x	3.5x	3.6x

Source: Moody's Investors Service, district audited financials, U.S. Census Bureau

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Profile

Fairview Park City School District is located 10 miles west of Cleveland in [Cuyahoga County](#) (Aa2 stable). The district operates four school facilities, providing pre-kindergarten through twelfth grade education to 1,657 students in a community of an estimated 16,000 residents.

Legal Security

The district's GOULT bonds are secured by the district's pledge and authorization to levy an ad valorem tax on all taxable property within its boundaries, unlimited as to rate or amount. The bonds also carry the district's full faith and credit pledge.

ESG considerations

Environmental

Environmental considerations are not material to the district's credit profile given ample reserves for near term challenges and rainfall management would fall to the city and county. Data from Moody's affiliate Four Twenty Seven indicates that Cuyahoga County, in which the district is located, has relatively high exposure to extreme rainfall events and low exposure to heat stress and water stress.

Social

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail and oil and gas could suffer particularly severe impacts. The district has slightly above average wealth metrics and population has remained stable. The enrollment for the district has modestly declined over the last five years; however, district officials expect enrollment to stabilize near current levels.

Governance

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.

The district will be going to voters for a new current expense levy that would generate approximately \$3.4 million a year. The district has strong voter history the last 15 years.

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 adjustments 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.

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$1,165,886	A
Full Value Per Capita	\$72,804	Aa
Median Family Income (% of US Median)	114.3%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	65.0%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	-26.7%	B & Below
Cash Balance as a % of Revenues	63.2%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-22.8%	B & Below
Notching Adjustments: ^[2]		
Other Scorecard Adjustment Related to Finances: 5 year change not reflective of financial profile		Up
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Baa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	4.1%	Baa
Net Direct Debt / Operating Revenues (x)	2.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	7.1%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.6x	Baa
	Scorecard-Indicated Outcome	Aa3
	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: Moody's Investors Service, district audited financials, U.S. Census Bureau

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