

# RatingsDirect®

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## Summary:

# Wadsworth City School District, Ohio; Appropriations; General Obligation

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### Credit Profile

US\$25.95 mil GO (unltd tax) sch imp rfdg bnds ser 2014 due 12/01/2037

*Long Term Rating* AA-/Stable New

Wadsworth City Sch Dist GO

*Long Term Rating* AA-/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Wadsworth City School District, Ohio's series 2014 unlimited-tax general obligation (GO) school improvement refunding bonds. At the same time, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the district's outstanding GO debt. In addition, we affirmed our 'A+' long-term rating on the district's appropriation-backed certificates of participation (COPs). The outlook is stable.

The 'AA-' rating reflects our view of the district's:

- Diverse local economy with access to the regional employment centers of Akron and Cleveland;
- Strong income and market value indicators;
- Stable student enrollment trend; and
- Very strong financial reserves.

While we consider district economic indicators strong, they are not at a level commensurate with a higher rating.

We rate the COPs one notch below the GO rating to reflect the appropriation risk.

The district's unlimited-tax GO pledge secures the 2014 bonds. It will use bond proceeds to refund its series 2010B school improvement bonds for interest savings. The series 2010B bonds were issued as Build America Bonds and are callable because the U.S. Treasury reduced interest rate subsidies.

Wadsworth City School District, which serves an estimated population of 27,500, encompasses approximately 35 square miles of northeastern Ohio's Medina County. The district includes Wadsworth and portions of the surrounding townships. In addition to local jobs, residents benefit from the district's location within commuting distance of Cleveland (35 miles to the north) and Akron (15 miles to the east). The district is primarily residential and management reports that leading local employers and taxpayers are both stable. We consider district median household effective buying income (EBI) strong at 117% of the U.S. average and per capita EBI good at 101%. Medina County unemployment averaged 6.5% in 2013. Estimated market value is a strong \$62,123 per capita.

Assessed value (AV) has declined 11.8% since 2008, with a majority of the declines occurring with a triennial

adjustment in 2011 and a sexennial reappraisal in 2014. Most recently, AV declined 4.9% in 2014 to \$598.5 million. Management believes that AV has bottomed out and cited some improvements in both commercial and residential markets. AV declines have had minimal effect on district revenues.

Property taxes make up 48% of projected 2014 revenues, and voter support is a key factor in the maintenance of strong district finances. Given that a large portion of the district's operating tax levies are based on a revenue level rather than on a rate that fluctuates with AV, over time, revenues become insufficient to cover rising costs. However, the district can make budget cuts or ask voters to approve an operating levy. Currently all district levies are continuous, meaning that the district does not rely on levy renewals to maintain property tax revenues. The district most recently approved a 4.9-mill current expense levy in November 2011 on the second try, and before that, it passed a 5.9-mill levy in February 2003, also on the second try. Management currently does not have any plans to return to voters for a levy increase, but considers it an option if projected operating reserve balances were to decline to a level that would not support cash flow needs.

State-shared revenue accounts for approximately 40% of district revenues and is based largely on enrollment, but recent changes in the state formula have placed Wadsworth City School District at a state aid cap for fiscal years 2014 and 2015. According to the formula, the district will receive a 6.25% increase in aid in fiscal 2014 and a 10.5% increase in fiscal 2015 over fiscal 2013 levels. Enrollment has been generally stable in recent years. Average daily membership enrollment for fiscal 2014 is 4,802, and management is projecting flat enrollment for fiscal 2015. Open enrollment out of the district outpaces open enrollment into the district largely because the Wadsworth City School District only takes open enrollees at the high school level.

District financial projections assume relatively flat property tax revenue and state aid, combined with rising personnel and other expenses, resulting in declining operating balances. Management is projecting a \$274,000 surplus in fiscal 2014, increasing reserves to \$7.62 million, or a very strong 19% of expenditures, but excluding advances-in, management is projecting future operating deficits, with unencumbered cash balances declining to \$1.2 million by fiscal 2018, or 2.7% of expenditures. However, over the two-year horizon, the forecast shows maintenance of very strong reserves, with an ending fiscal 2016 cash balances at \$7.54 million, or 17.7% of expenditures.

Compared with budgetary basis projections, audited general fund reserves on an accrual basis show lower, but still very strong, reserves. Available fiscal 2013 general fund reserves totaled \$6.5 million, or a very strong 17.2% of expenditures. This compares with cash basis reserves as presented in the forecast of \$7.35 million to end fiscal 2013, or a very strong 19.4% of expenditures.

We consider Wadsworth City School District's financial management practices "good" under our Financial Management Assessment (FMA) methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Highlights include a targeted \$2.5 million minimum operating reserve balance on a cash basis, monthly reporting to of budget-to-actual results, and long-term financial planning.

The district's overall debt burden is, in our view, a moderately high 6.1% of estimated market value and moderate at \$3,771 per capita. Debt service carrying charges were an elevated 16.9% of total governmental fund expenditures less

capital outlay in fiscal 2013. Amortization is below average, with 40% of direct debt to retire within 10 years. District officials have no additional debt plans.

Eligible district employees participate in either the School Employees Retirement System of Ohio or the State Teachers Retirement System of Ohio. Both are cost-sharing, multiple-employer retirement systems which offer defined-benefit, defined-contribution, or combined plans. Defined-benefit plans include postemployment health care benefits. District annual required contributions are calculated as a percentage of payroll. Required contributions totaled \$3.1 million in fiscal 2013, or 6.7% of total governmental expenditures. Wadsworth City School District has historically made 100% of required contributions.

## Outlook

The stable outlook reflects our expectation that the district will maintain very strong reserves over the two-year outlook horizon, supported by state aid growth. However, should drawdowns exceed projections, we could lower the rating. Growth in tax base indicators could result in a higher rating, but we do not expect the district's economic profile to substantially change over the two-year outlook horizon.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Ratings Detail (As Of May 29, 2014)		
Wadsworth City Sch Dist certs of part ser 2009 <i>Long Term Rating</i>	A+/Stable	Affirmed
Wadsworth City Sch Dist GO (ASSURED GTY) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Wadsworth City Schs sch imp bnds (current int bnds &amp; cap apprec bnds) ser 1998 dtd 04/01/1998 due 12/01/1998-2008 2015 2018 2022</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Wadsworth City Sch Dist</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<b>Wadsworth City Sch Dist GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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