

RatingsDirect®

Summary:

Northwest Local School District (Stark, Summit & Wayne Counties), Ohio; School State Program

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Credit Profile

Northwest Local Sch Dist (Stark, Summit & Wayne Cntys) energy conser nts GO ltd tax (Federal Taxable-Qual Sch Const Bnds - Direct Payment)

Long Term Rating

AA/Stable

Current

Underlying Rating for Credit Program

A/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has affirmed its 'A' underlying rating on Northwest Local School District (Stark, Summit & Wayne Counties), Ohio's existing general obligation (GO) debt. The outlook is stable.

The rating reflects our assessment of the district's:

- Access to jobs in Akron, Canton and Cleveland;
- Good income indicators;
- Positive budgetary performance which has increased its general fund reserves; and
- Moderate overall debt

We believe the less-than-adequate voter support is a limiting credit consideration.

The district's unlimited-tax GO pledge secures the existing bonds.

Northwest Local School District encompasses approximately 32 square miles, mostly in northeastern Ohio's Stark County, about 14 miles northwest of Canton and 12 miles south of Akron. The district consists, in large part, of Lawrence Township and Canal Fulton City in Stark County, as well as surrounding municipalities and serves an estimated 13,330 residents. In addition to local jobs, district residents benefit from employment options throughout Akron and Canton, as well as Cleveland's larger and more diverse economic center. Economic weakness still resonates throughout the area, but the unemployment figure for Stark County has dropped to 5.8% through the first nine months of 2014, which is comparable to the state rate of 5.9%. Both the county and state unemployment rates are down at least 1% below the 2013 rate of 7.5%.

We consider the economic indicators for the district good with the per capita and median household effective buying income at 92% and 106% of the national level. The district's assessed value rebounded slightly in fiscal 2014 to \$239.2 million after falling nearly 11.5% for the 2013 sexennial update. Officials expect at least flat values, if not an increase, for the triennial update in fiscal 2016. The market value of \$683.6 million equates to an adequate market value per capita of \$51,281.

Enrollment from fiscal 2014 to fiscal 2015 increased by 23 students to a total of 2,030 but overall has decreased by

nearly 15% since fiscal 2009. Officials cited larger graduating classes and lower birth rate as the reasons for the decline but anticipate enrollment will be near 2,100 by fiscal 2019. The district participates in the open enrollment program, which currently represents less than 3% of the total enrollment. The district typically loses approximately six students on an annual basis.

The district's budgetary performance has been steady, with five consecutive general fund surpluses on a generally accepted accounting principles (GAAP) basis. The surpluses have enabled the district's general fund to be positive for the past two fiscal years (2013 and 2012; fiscal 2014 is also expected to show a surplus once the audit is complete). As of June 30, 2013, the district held reserves which totaled nearly 8% of operating expenditures, which we consider good. Officials state that the district has been curtailing expenses mainly through attrition (without layoffs) and despite the less-than-adequate voter support for operating levy referendums, the district was able to renew an income tax referendum in November 2014, which has also assisted the district's finances with slight increases in income tax revenue each of the past few years.

The district's current October 2014 five-year forecast (cash basis) indicates a use of cash beginning in fiscal 2016 and continuing through fiscal 2019. Positive cash balances, however, are maintained through fiscal 2016 with a negative cash balance starting in fiscal 2017. Officials indicated they conservatively budgeted for lower state aid in fiscal 2016 while awaiting the outcome of the state budget to be adopted in spring of 2015. Results for fiscal 2014 (cash basis) are projected to be a surplus of \$944,000, which would increase the ending cash balance to \$4.2 million, or 23% of operating expenditures, which we consider good. Fiscal 2015 is budgeted to be a surplus of \$69,000 and through the first six months of the year, officials believe it will be near approximately \$100,000 due mainly to higher income tax revenues received.

The district has no plans to approach voters for any new operating money referendums for the next five years. The last new operating levy officials put on the ballot was in May 2009, which was defeated for the third time (after similar results in February 2009 and November 2008). The last new money proposal approved by voters was back in 1992. Renewal history is also less than adequate as residents have also defeated operating renewals, although voters did approve a 5.5-mill emergency levy in May 2011 which will come back on the ballot fiscal 2016. Voters have only approved two operating referendums out of the last 10 dating back to 2005. The last bond approval was back in 2002 after seven defeats going back to 1997. As mentioned above, voters did approval a five-year renewal for a 1% earned income tax levy on residents and estate in 2014, which will come up for renewal in 2019.

The last audit was in 2013 (GAAP basis) and showed a surplus of \$669.304 million, which increased the total available general fund balance to \$1.3 million, or, in our opinion, a good 7.9% of operating expenditures. According to the fiscal 2013 audit, state aid accounted for nearly 53%, while property and income taxes contributed approximately 33% and 13%, respectively.

Standard & Poor's revised the district's financial management practices score to "standard" from "good" under its Financial Management Assessment (FMA) methodology based on updated information related to investment management policy. The district adheres to state guidelines with its investments and reports on an annual basis the performance and holdings of its investments. An FMA of "standard" indicates our view that the finance department maintains adequate policies in some, but not all, key areas. District officials use internal and external, as well as

historical, sources to project revenues and expenditures for the five subsequent fiscal years, as represented by its semiannually updated financial plan. Management shares budgeted numbers compared with actual results with the school board monthly. Although striving to adhere to an internal target of maintaining positive cash balances, district officials do not currently maintain formal reserve or debt management policies.

We consider the district's overall debt levels low at \$1,672 per capita and more moderate at 3.3% of market value. Debt service carrying charges were also low, in our view, at 8.4% of governmental expenditures in fiscal 2013. Amortization is slightly above average as officials plan to retire approximately 62% of outstanding debt in 10 years and 100% in 20. It is our understanding that the district does not have any debt plans in the next two years.

The district participates in the School Employees Retirement System of Ohio and the State Teachers Retirement System of Ohio--cost-sharing, multiemployer, defined-benefit pension plans, and other postemployment employee benefits (OPEBs). The district has made its required contribution payments. Based on the district's fiscal 2013 audit, combined payments for pension and OPEB represented approximately 5.1% of total governmental expenditures. We do not consider the pension and OPEB liabilities a significant budget pressure as the district does not expect overall costs to materially increase over the next two years.

Outlook

The stable outlook on the underlying rating reflects our expectation that the district will continue its positive budgetary performance and make the necessary adjustments to maintain at least good cash reserves. We do not expect to revise the rating within the two-year outlook period, but if the positive budget performance continues and there is a material addition to reserves which is maintained, we could raise the rating. Conversely, if the budget performance deteriorates and reserves are materially affected, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006

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