

RatingsDirect®

Summary:

Kings Local School District Board of Education, Ohio; General Obligation

Primary Credit Analyst:

Tiffany Tribbitt, New York (1) 212-438-8218; Tiffany.Tribbitt@spglobal.com

Secondary Contact:

Benjamin D Gallovic, Chicago + 1 (312) 233 7070; benjamin.gallovic@spglobal.com

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Summary:

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Credit Profile

US\$17.32 mil sch imp unlted tax GO rfdg bnds federally taxable ser 2019 due 12/01/2033

Long Term Rating AA/Stable New

Kings Local Sch Dist

Long Term Rating AA/Stable Affirmed

Kings Local Sch Dist Brd of Ed sch imp unlted tax GO rfdg bnds (NOT Bank Qualified)

Long Term Rating AA/Stable Affirmed

Kings Local Sch Dist Brd of Ed GO

Unenhanced Rating AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Kings Local School District Board of Education, Ohio's series 2019 taxable school improvement general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the district's existing debt. The outlook is stable.

Security and use of proceeds

The district's unlimited-tax GO pledge secures the bonds. The approximately \$17.3 million of bond proceeds will advance refund a portion of the district's series 2013A bonds for savings.

Credit overview

Located in Warren County, about 30 minutes north of Cincinnati, Kings Local School District Board of Education serves an estimated population of 27,897.

The rating reflects our view of the district's:

- Participation in the greater Cincinnati economy, leading to a very strong local tax base;
- Stable history of voter support for operational levies; and
- Strong financial status, with healthy reserves and a solid record of maintaining balanced results in the face of growth pressures.

The district's growing capital needs and expectations of additional debt issuance or reserve drawdowns to meet them somewhat offset these credit strengths.

Economy

Access to the broad and diverse Cincinnati metropolitan areas leads to numerous job opportunities for district residents, supporting very strong wealth indicators. The median household effective buying income in the district is 143% of the national average, and the per capita effective buying income in the district is 149% of the national average, both of which we consider very strong.

The district benefits from economic development activity in Cincinnati and throughout Warren County. These include Cincinnati's various redevelopment plans, an Amazon fulfillment center, a \$1.5 billion mixed-use development in Union Village, and various commercial expansions. Growth in the regional economy directly affects the demand for residential growth in the district. Therefore, the district is experiencing significant growth and development, resulting in very strong market values per capita of \$94,518 in 2019 with estimated market value totaling \$2.6 billion. Assessed value (AV) grew by a total of 19.6% to \$922.9 million in 2019 since 2017. While a portion of this growth is attributable to the six-year reassessment, residential growth during non-assessment years continued at about 3.6%, signaling significant development within the district that we expect will continue in the near term. The 10 largest taxpayers make up an estimated 12.2% of AV, which we consider very diverse. Given regional economic trends, we expect the local economy will maintain current trends in the near term.

Finances

School districts in Ohio are reliant on a combination of property tax and state-shared revenue. Kings Local School District's 2018 revenues consisted of about 60% property taxes and 28% intergovernmental. The formula for state-shared revenue has undergone changes in recent years, but in general is based on per-pupil enrollment. Therefore, because enrollment has a direct impact on revenue, we view it as an important credit factor. Student enrollment for 2020 totaled 4,629. Enrollment increased in each year from 2016 to 2020.

A large portion of school property tax levies in Ohio is based on a revenue level, rather than a rate that fluctuates with AV. This creates what is known as the levy cycle, such that 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 reported a surplus operating result of 5.4% of expenditures in 2018 and expects another surplus of about 3% of expenditures based on unaudited 2019 results. This continues its trend of strong performance. Management attributes its ability to maintain balanced results to conservative revenue estimates, combined with close monitoring of expenditures.

The district's available fund balance of \$13.5 million is very strong, in our view, at 28% of general fund expenditures at fiscal year-end (June 30) 2018. Results in 2019 will continue to strengthen the district's reserve position. Looking out over the next five years, the district anticipates using reserves to help it manage tax increases. Given this, the district does not intend to go to voters for additional levy support until 2021 or 2022 depending on actual results. Given continued growth in the local tax base combined with the district's history of strong voter support for operational levies, we do not expect any revenue pressure. Although the district's reserves will likely decrease in the years leading up to a new levy increase, we do not anticipate material deterioration in its finances.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

Highlights include:

- Conservative budgets that use outside sources to project enrollment, a critical element of determining state aid revenue, and up to 10 years of historical data;
- Monthly budget-to-actual reports to the school board, with the ability to make amendments as needed;
- A comprehensive five-year forecast, embedded into the budgeting process and updated semiannually;
- An investment management report with holdings and performance reported to the board monthly; and
- A capital improvement plan with funding identified for the budget year.

The district lacks a reserve or debt management policy. It is taking steps to mitigate its risk of cyberattacks, including protecting sensitive data.

Debt

Overall net debt is 1.6% of market value and \$1,682 per capita, which we consider to be low. Amortization is rapid, with 65% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 7.1% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider low. The district doesn't have any privately placed debt with terms that could accelerate or pressure liquidity. Given the district's growth, it has substantial capital needs. It plans to put \$89.9 million to voters in 2020 and if passed, could begin bonding against the authorization within the next year. While we would expect these plans to alter the district's debt profile, we do not expect them to have a material impact on its overall creditworthiness given we factor these needs into our analysis.

Pension and other postemployment benefit liabilities

- We do not view pensions and other postemployment benefits (OPEB) obligations as an immediate source of credit pressure given funding status and affordability of these costs.
- Although costs are a manageable size of the budget, some underlying assumptions and methodologies could lead to contribution volatility, which we would expect the district to absorb without pressuring operations.
- The district funds its OPEB benefits as a percentage of payroll, resulting in some prefunding of these liabilities, which could help offset cost increases due to long-term medical cost trends.

The district participates in the following plans:

- State Teachers Retirement System of Ohio (STRS): 75.3% funded, with a proportionate share of the plan's net pension liability of \$46.3 million;
- School Employees Retirement System (SERS): 69.5% funded, with a proportionate share of the plan's net pension liability of \$13.8 million;
- STRS Healthcare Fund: 47.1% funded with a proportionate share of the plan's net OPEB liability of \$10.4 million;

and

- SERS Healthcare Fund: 12.5% funded with a proportionate share of the plan's net OPEB liability of \$6.8 million.

The plans made funding progress in the most recent year, with contributions in excess of static funding, but they were less than our minimum funding progress metric. Contributions are contractual, but measured against an actuarial calculation. The actuarially calculated contributions will increase by approximately 3.0% each year due to the level percent of pay amortization basis over an open 30-year period. This is an aggressive contribution methodology and the contractual contributions are below the calculation. With liabilities measured using a discount rate of 7.45%, we see risk of cost escalation due to market volatility.

In fiscal 2018, the district paid its full required contribution of \$3.6 million, or 6.1% of total governmental expenditures, toward its pension obligations. The district also contributed \$165,000, or 0.3% of total governmental expenditures, toward its OPEB obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 6.4% of total governmental fund expenditures in 2018.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that district management will continue to maintain its strong financial position and effectively manage the levy cycle. We expect stability in the local economy and continuation of strong voter support will provide the district consistent revenues. While the district has significant capital needs due to growth, we believe management will manage these costs without any deterioration in the district's finances. Therefore, we do not expect to raise or lower the rating within the next two years.

Downside scenario

Should growth needs pressure the district's finances, or voter support decline, causing the district to materially draw down its reserve position, we could lower the rating.

Upside scenario

If the district manages its capital needs while sustaining high reserve levels and a low debt profile, holding all other factors equal, we could raise the rating.

Related Research

- 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

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