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Ratings

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Summary:

Dublin City School District, Ohio; General Obligation

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Credit Profile		
US$125.0 mil sch facs const and imp bnds ser 2019A due 12/01/2048		
Long Term Rating	AAA/Stable	New
US$9.5 mil sch facs const and imp bnds ser 2019B due 12/01/2035		
Long Term Rating	AAA/Stable	New
US$9.45 mil sch facs const and imp bnds ser 2019C due 12/01/2038		
Long Term Rating	AAA/Stable	New
Dublin City Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating to Dublin City School District, Ohio's $125.0 million series 2019A, $9.5 million 2019B, and $9.45 million 2019C unlimited-tax general obligation (GO) school facilities construction and improvement bonds. At the same time, we affirmed our 'AAA' long-term rating and underlying rating (SPUR) on the district's previously issued GO debt. The outlook is stable.

The series 2019 bonds are secured by the district's full-faith-credit-and-resources pledge and agreement to levy ad valorem property taxes without limit to rate or amount following a voter-approved levy in November 2018 that received 58% support. Series 2019A bond proceeds will primarily be used to finance the construction of two new elementary schools and a new middle school, as well as upgrades to existing facilities. The district's series 2019B bond proceeds will be used to take out the district's series 2018 and 2018B bond anticipation notes (BANs). The district's series 2019C bonds will be used to take out the district's series 2017A BANs. In aggregate, the series 2019 bonds will not require an increase in millage due to existing bond millage that will be rolling off. Concurrent with this bond issue, voters also approved a 5.9-mill operating levy and a 2.00-mill permanent improvement levy (which also requires no overall millage increase), which will be used to fund operations and maintenance district-wide. The referendum authorized a total issuance of $195 million. The district plans to issue the remaining authorized debt in late 2019 or 2020. Those bonds will primarily be used to finance additions to the district's existing high schools. The district has the authorization to issue up to $55.5 million, though officials note that the actual amount may be lower.

Some of the district's outstanding debt is backed by the full faith-credit-and-resources GO pledge but with an agreement to levy 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 outstanding GO bonds 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 predominately locally derived revenue source, independent taxing authority and independent treasury management from the federal government.

In our view, the district's status as a desirable suburb within the fast-growing Columbus metropolitan statistical area (MSA), 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 in recent years, which is projected to continue into the future. Given that the district is more reliant on property taxes, rather than per-pupil state aid, we believe that successful management of the levy cycle, which includes gaining voter support for new levies, is vital for the district to manage these growth pressures. We view the passage of the bond issue and two levies as a testament to the strength of both management and their support from the electorate, and believe this will stabilize facility and operational needs over the outlook horizon. In addition, we believe that the additional debt will not significantly pressure the district given a favorable debt repayment schedule and continuous growth in the tax base. Lastly, given the district's good financial policies, including the use of long-term planning, we believe that the district is prepared to make adjustments in the event that future enrollment growth does not come to fruition.

The 'AAA' ratings reflect our view of the district's:

- Access to the deep and diverse Columbus, Ohio, economic base;
- Very strong income indicators and extremely strong market value per capita;
- Maintenance of very strong reserves, both on a generally accepted accounting principles (GAAP) and cash basis of accounting;
- Strong voter support, which is crucial given its reliance on property taxes; and
- Moderate debt burden.

Economy

Dublin City School District, situated 16 miles northwest of Columbus, covers 49 square miles within Delaware, Franklin, and Union counties and serves an estimated population of 86,385. The district includes the majority of the city of Dublin, but its boundaries also encompass a portion of Columbus as well as certain unincorporated parts of Delaware 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 4,300 businesses employing approximately 75,000 workers. The largest employers in the city of Dublin are Cardinal Health Inc. (4,800 employees), OhioHealth & Dublin Methodist Hospital (1,680), and the school district itself (1,574). District residents have extensive job opportunities throughout an expanding employment base both in Dublin and the Columbus metropolitan area. The largest employers in the Columbus area are the Ohio State University (32,111 employees), OhioHealth (26,599), Wal-Mart Stores Inc. (26,000), and the state of Ohio (24,955). The preliminary unemployment rate for Franklin County in November 2018 was 3.5%, which was lower than the state rate of 4.1% for the same time period.

At 149% and 156% of national averages, respectively, the district's median household and per capita effective buying incomes are very strong in our view. Estimated market value totaled $9.9 billion in 2019, which we consider extremely strong at $114,407 per capita. Assessed value grew by a total of 11.4% since 2017 to $3.5 billion in 2019. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 4.8% of assessed value.

Finances

School districts in Ohio are reliant on a combination of property tax and state-shared revenue. The formula for state-shared revenue is largely based on per-pupil enrollment. Therefore we view enrollment as an important credit factor.

Enrollment in the district continues to grow with officials estimating that the student base will increase by at least 3,000 over the next 10 years. Enrollment increased by nearly 200 to 16,419 for fiscal 2019. Over the past three years, headcount has increased by 874 students. The district does not participate in the state's open enrollment program.

The district uses third-party enrollment projections to help with long-term planning. The projections indicate that enrollment will increase by approximately 29%, or over 4,700 students, by 2036, before plateauing. These 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 current capacity needs, the current bond issue is being used to construct two new elementary schools, one new middle school, and additions to existing high schools. With future growth expected, officials anticipate the potential need for two additional elementary schools by 2036. Under current plans, the district does not anticipate the need for an additional middle school or high school. The district recently purchased a former Verizon office building and is using it to house its high school career exploration academies, thereby freeing up capacity at its existing high schools.

The district's current five-year forecast (cash basis, revised in December 2018) projects surpluses in fiscal 2019 and 2020, increasing general fund cash reserves to $84.2 million, or 39% of expenditures, which we consider very strong. The surpluses are supported by the passage of the new 5.9 mill operating levy in November 2018. The forecast then depicts a use of cash beginning in fiscal 2021 and continuing through 2023. Despite the projected use of reserves starting in 2021, we've seen better actual results than those projected by the district in previous five-year forecasts. We will continue to monitor the school's forecast and performance to determine if the projected decline in reserves points to weaker credit quality or conservative budgeting practices. To date in our analysis of the district we have witnessed conservative budgeting practice. Of note, the district has been able to reduce expenses through changes in its health insurance plan, and the new permanent improvement levy will shift certain capital expenses out of the general fund, which we believe will help contribute to balanced operations.

The district's 2018 GAAP audit depicted a general fund operating surplus of $3.9 million (before accounting for transfers out and the issuance of debt, which resulted in a larger, $13.4 million increase in fund balance). The unassigned and assigned fund balance totaled $117.2 million, or a very strong 58% of general fund expenditures at fiscal year-end. According to the 2018 audit, property taxes accounted for 73.1% of total general fund revenue while state aid contributed approximately 17.4%. We expect these two revenue streams to remain stable over the next two years.

A large portion of school property tax levies in Ohio are based on a revenue level that doesn't fluctuate with changes in AV. 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.

Overall, we believe the district's voter history has been strong with respect to bond and operating levies. Since 2000, voters have approved five out of six bond elections, and five out of six operating levies. The only two defeats occurred in November 2011, the first time the district approached voters after the Great Recession. The November 2018 election included a bond election, as well as current expense and permanent improvement levies. The three requests received 58% electorate support, which in our view indicates strong backing from the community. The district has no plans to go to voters within the two-year outlook horizon. The new current expense levy is projected to be sufficient for at least the next four years, though the district has a history of extending the useful life of levies, so it's possible the district will not need a new levy for more than four years.

Management

We consider the district's management practices "good" under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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 last 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. The district created a 10-year master capital plan in 2016, which outlines capital and maintenance needs. While the district plans to revisit and update this plan, there is no formal process or requirement that they do so. The district has its own investment policy and reports the performance and holdings on a monthly basis. Officials do not have a formal debt policy but adheres 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.

Debt

Including the issuance of the series 2019 bonds, overall net debt is moderate, in our opinion, at 4.0% of market value and $4,604 per capita (this includes debt of overlapping taxing entities). With 52% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Debt service carrying charges were 9.0% of total governmental fund expenditures, excluding capital outlay in fiscal 2018, which we consider moderate.

The district has authorization to issue an additional $55.6 million, which it currently plans to issue in late 2019 or 2020. These bonds will be used for additions to the district's high schools. Given that a roughly equivalent amount of existing debt will be paid off by the end of 2020, we don't anticipate a material change in the district's overall debt burden. Based on pro forma debt service schedules, including the remaining authorization, debt service is frontloaded with maximum annual debt service occurring in the first year, while maintaining a roughly 50% repayment schedule over the next 10 years. We expect annual debt service costs to remain moderate, and we view this repayment structure favorably.

The district's series 2017A and 2017B BANs were privately placed, but these will be refunded with the series 2019 bonds. The district has no other direct purchase debt. It is our understanding that the district currently does not have any other debt plans in the next several years, though its current repayment schedule will allow for additional debt in the future if growth continues as anticipated.

Pension and other postemployment benefit liabilities

The district participates in the School Employees Retirement System (SERS) of Ohio and the State Teachers Retirement System of Ohio (STRS), which are cost-sharing, multiple-employer defined-benefit pension plans, and provides other postemployment benefits (OPEB). The district has made its annual required contribution payments the last three years.

The district paid its full required contribution of $18.1 million toward its pension obligations in fiscal 2018, or 7.7% of total governmental expenditures. OPEB contributions through the plans accounted for 0.2% of expenditures. We don't expect pension and OPEB liabilities to become a budgetary pressure over the next two years.

The district's proportion of the net SERS and STRS liability as of the most recent actuarial valuation was $51.9 million and $211 million respectively. The district's proportionate share of the net pension liability is based on statutory required contributions in relation to all reporting units' statutorily required contributions for the measurement period. The funding ratio for SERS and STRS are 71.3% and 77.3%, respectively, which we recognize could become a budgetary pressure for all Ohio school districts in the near future because of the less-than-adequate funding. We will continue to monitor the funding percentages.

Outlook

The stable outlook reflects our expectation that the district will maintain very strong reserves by making the necessary adjustments as enrollment steadily increases and facility demands continue to grow.

Participation in the deep and diverse Columbus area economy provides additional rating stability in our view. We do not expect to revise the rating within the two-year outlook horizon, but if enrollment pressures and/or if management is unable to manage its levy cycle and general fund reserves are materially affected, we could lower the rating.

Ratings Detail (As Of January 18, 2019)		
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 (National) (MBIA)		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
Dublin City Sch Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Many issues are enhanced by bond insurance.