

CREDIT OPINION

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 Rate this Research

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Northwest Local SD (Hamilton County), OH

Update following removal of negative outlook

Summary

[Northwest L.S.D. \(Hamilton County\), OH's](#) (Aa2) strong credit profile is supported by its healthy financial position despite past reserve draws, stable enrollment that is expected to continue in the near-term, relatively strong resident income, and proximity to the Cincinnati metropolitan area. The district's reserves are expected to stabilize in the near-term because the district anticipates a moderate operating surplus for fiscal 2021 due to expenditure reductions, anticipated coronavirus stimulus funds, and new revenue from its recently enacted operating levy that was approved by voters in November 2019. The district's total leverage is elevated for its rating category due to its elevated pension liabilities, while debt could rise if the district moves forward with its near-term borrowing plans.

On August 13, 2021, we affirmed the district's issuer and general obligation ratings at Aa2 and its lease appropriation rating at Aa3. We also removed the negative outlook because the district's financial position is expected to stabilize in the near-term due to the recent passage of an operating levy, additional revenue from coronavirus stimulus funds, and expenditure reductions in fiscal 2021.

Credit strengths

- » Healthy operating reserves and liquidity despite previous reserve draws
- » Recently approved operating levy and anticipated coronavirus stimulus funds expected to provide financial stability
- » Proximity from Cincinnati metropolitan area

Credit challenges

- » Periodic exposure to voters for new operating levies
- » Elevated leverage due to debt and pension liabilities

Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Sustained growth in operating reserves or liquidity
- » Strengthening of resident income or enrollment trends
- » Notable decline in leverage

Factors that could lead to a downgrade

- » Material narrowing of operating reserves or liquidity
- » Significant weakening of resident income or enrollment trends
- » Substantial growth in leverage beyond expectations

Key indicators

Exhibit 1

Northwest L.S.D. (Hamilton County), OH

	2017	2018	2019	2020	Aa Medians
Economy					
Resident income	120.6%	117.5%	115.7%	115.7%	120.3%
Full value (\$000)	\$4,165,001	\$4,308,647	\$4,341,750	\$4,352,262	\$3,767,803
Population	75,503	75,847	75,272	75,272	32,239
Full value per capita	\$55,163	\$56,807	\$57,681	\$57,820	\$110,286
Enrollment	8,900	8,954	9,152	8,912	4,353
Enrollment trend	N/A	N/A	0.9%	0.0%	0.1%
Financial performance					
Operating revenue (\$000)	\$96,760	\$94,581	\$95,347	\$86,839	\$70,864
Available fund balance (\$000)	\$51,780	\$51,186	\$44,307	\$29,745	\$17,424
Net cash (\$000)	\$42,599	\$41,876	\$35,969	\$35,563	\$20,807
Available fund balance ratio	53.5%	54.1%	46.5%	34.3%	26.1%
Net cash ratio	44.0%	44.3%	37.7%	41.0%	31.0%
Leverage					
Debt (\$000)	\$94,996	\$92,619	\$89,683	\$91,208	\$48,829
ANPL (\$000)	\$390,730	\$305,529	\$282,375	\$339,334	\$92,102
OPEB (\$000)	N/A	\$14,911	\$9,030	\$9,130	\$10,438
Long-term liabilities ratio	N/A	436.7%	399.7%	506.3%	280.7%
Implied debt service (\$000)	\$7,319	\$7,056	\$6,824	\$6,539	\$3,402
Pension tread water (\$000)	\$9,937	\$6,768	\$6,132	\$6,395	\$3,018
OPEB contributions (\$000)	N/A	\$0	\$352	\$176	\$440
Fixed-costs ratio	N/A	14.6%	14.0%	15.1%	11.9%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Northwest L.S.D. (Hamilton County), OH's financial statements and Moody's Investors Service

Profile

Northwest Local School District (Hamilton County), OH is located about 10 miles northwest of downtown [Cincinnati](#) (Aa2 stable) in [Hamilton](#) (Aa2 stable) and [Butler](#) (Aaa stable) Counties. As of fiscal 2021, the district provided pre-kindergarten through twelfth grade education to roughly 8,500 students.

Detailed credit considerations

Economy: growing local economy near Cincinnati metro area

The district's local economy will continue to benefit from its relatively strong resident income and proximity to the Cincinnati metro area, which serves as a major employment hub for the district. The district's tax base is predominantly residential (79% of 2021 assessed valuation) with moderate commercial (16%) presence. Management reports that there is some residential and commercial development underway. As of June 2021, Hamilton County's unemployment rate was at 6.1%, on par with national rates but slightly below state (6.3%) ones.

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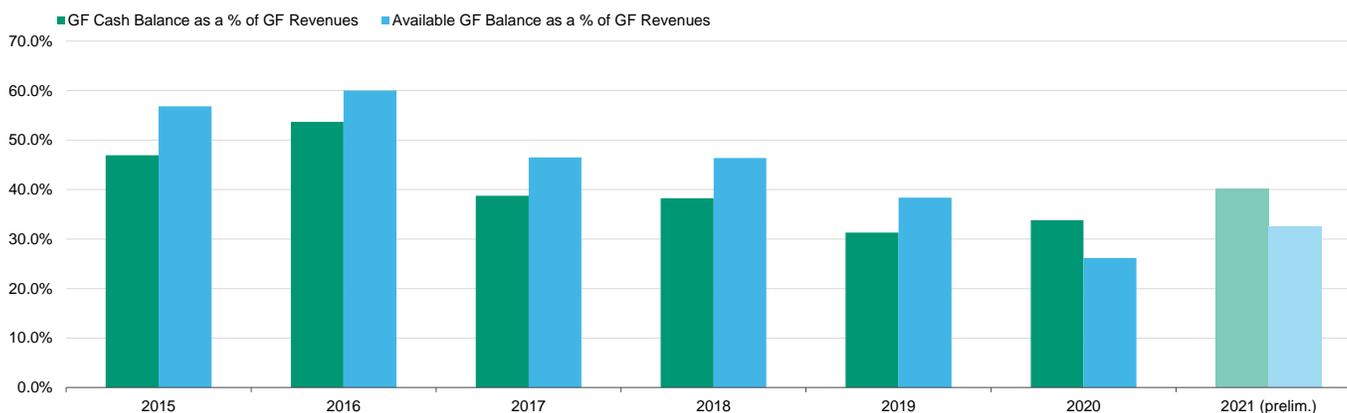
Historically stable, total enrollment in the district has experienced modest declines recently with the 3-year CAGR for enrollment at -1.7%. The district does not offer open enrollment to students and loses approximately over 200 students annually to open enrollment outside of the district. For the 2020-2021 school year, enrollment modestly dropped mainly due to kindergarten enrollment declining as a result of the coronavirus pandemic. Management projects that enrollment will be stable at pre-pandemic levels in the near-term.

Financial operations: healthy financial position expected to continue

Despite eroding over the past few years, the district's financial position will remain healthy and will stabilize in the near-term because of a combination of a recently passed operating levy, recent budget cuts, and additional revenue from coronavirus stimulus funds. In November 2019, the district received voter approval for a 7.5-mill emergency levy, which will help the district stabilize its operations going forward. In return for utilizing the recently enacted levy, the district also enacted \$2.6 million in expenditure reductions for fiscal 2021 to rightsize its operations. Consequently, district management projects that fiscal 2021 will generate a \$6 million general fund surplus. The projected surplus would moderately raise general fund reserves up to 33% of fiscal 2020 general fund revenue.¹ Over the next few years, the district plans on spending its anticipated \$35 million in coronavirus stimulus funding to hire additional staff for addressing learning losses as a result of the coronavirus pandemic.

Exhibit 2

Healthy financial position expected to stabilize in the near-term (excluding coronavirus stimulus aid)



[1] Preliminary fiscal 2021 general fund results measured relative to fiscal 2020 general fund revenue.

Source: Northwest L.S.D. (Hamilton County), OH's financial statements and Moody's Investors Service

Management plans on asking district voters to approve an additional 5-mill operating levy request in 2023 to remain on target with its general fund cash balance policy. If approved, the district will receive approximately \$8.5 million annually. If the levy is not approved, the district would need make substantial expenditure reductions to maintain operations. Management has indicated willingness to make cuts if necessary to preserve healthy reserves.

Liquidity

Total operating net cash is healthy at \$35.6 million, representing 41% of fiscal 2020 operating revenue.

Leverage: elevated leverage with near-term borrowing plans

Leverage is elevated compared to peers at 506% of operating revenue as of fiscal 2020, largely consisting of the district's elevated adjusted net pension liabilities (ANPL) and moderate debt leverage. The district's debt leverage is likely to rise if the district moves forward with its near-term borrowing plans. Management has reported that they are contemplating funding facilities improvements through a potential debt issuance in the near-term as a part of the district's masters facilities plan. Adjusted fixed costs, inclusive of debt service and retirement contributions, were moderately high at 15% of operating revenue in fiscal 2020.

Legal security

The district's GOULT debt is supported by the district's full faith and credit pledge, and are payable from ad valorem taxes unlimited as to rate or amount.

The district's GOLT debt is supported by the district's full faith and credit pledge, and are payable from ad valorem taxes levied within the state's 10-mill limitation.

The district's COPs are supported by the district's annual appropriation pledge to make rental payments to the trustee under an annually renewable lease agreement. The pledged assets consist of the district's high school facilities, which we deem to be more essential assets.

Debt structure

All of the district's debt is fixed rate and long-term, with 27% of outstanding principal scheduled to mature within 10 years.

Debt-related derivatives

The district is not a party to any debt-related derivatives.

Pensions and OPEB

The district participates in the Ohio State Teacher Retirement System (STRS) and the Ohio School Employees Retirement System (SERS), two statewide multiple employer cost-sharing plans. While both plans remain significantly underfunded as compared to most local government cost-sharing plans across the country, there is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans.

As of fiscal 2020, the district's pension liabilities remain the most significant component of its overall leverage with ANPL at \$339.3 million, representing 391% of operating revenue. The district's ANPL is much higher than reported pension liabilities because the market interest rates we use to value pension liabilities are far lower than returns assumed by the district's pension plans. In fiscal 2020, the district contributed about \$9 million to both plans, equivalent to 10.4% of operating revenue. Failure to realize the investment returns assumed by the plans could result in higher future contributions.

Additionally, the district carries a small adjusted net other post-employment benefits (OPEB) liability which is calculated similar to its ANPL. The district had \$9.1 million in adjusted net OPEB liability, or 11% of operating revenue in fiscal 2020.

ESG considerations**Environmental**

The district's credit profile is not materially affected by environmental considerations. According to data from Moody's affiliate Four Twenty Seven, Hamilton County is at relatively high risk of extreme rainfall and heat stress and at low risk of water stress and cyclone exposure compared to other counties nationally. The county maintains a five-year hazard mitigation plan to identify and mitigate areas of potential exposure. The county's metropolitan sewer district is working through its consent decrees and Wet Weather Improvement Plan to address sanitary and combined sewer overflows, wastewater treatment, and basement backups. All district facilities have up-to-date heating and cooling systems.

Social

Social considerations such as demographics, labor force, income and education are material credit considerations. Since the 2010 Census, the district's population had modestly expanded by 1% to approximately 75,300 residents. The district's population has been gradually aging with the median age rising to about 41 years, slightly above state (39.4) and national (38.1) medians. Additionally, the proportion of school-aged children has modestly declined over the past decade to about 17% of the district's fiscal 2019 population. The district's poverty rate of 8.9% is below the national average.

Governance

The district is governed by a board of five members. The district adopted a formal general fund cash balance reserve policy in September 2016 that requires the district to maintain at least three months of operating expenditures as cash reserves. Management's budgeting approach has helped the district maintain healthy reserves and liquidity despite reserve draws over past years. Since 2010, the district has had 5 out of its 7 operating levy requests approved by voters. In November 2019, the district received voter approval to enact a 7.5-mill emergency levy for 10 years, which is expected to provide financial stability. The district plans on approaching voters again in 2023 to approve an additional 5-mill operating levy and has conducted community outreach to optimize its approach to levy requests.

Ohio school districts have an Institutional Framework score ² of A. Some districts are primarily funded by locally controlled property taxes, while others are primarily funded through state-controlled aid that is distributed according to a complex formula. Districts can request voter authorization for new and renewed property and income taxes. Voter support is disparate with some districts receiving regular approval for requests while others struggle to receive voter approval. State aid has been increasing regularly for most districts in recent years, but it has occasionally been cut, kept flat or subject to formula changes.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors 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 school district credits.

The two notch difference from the scorecard-indicated outcome is attributable to the district's financial position stabilizing as a result of its recently approved operating levy and our expectations of stable enrollment in the near-term.

Exhibit 3

Northwest L.S.D. (Hamilton County), OH

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	115.7%	10.0%	Aa
Full value per capita (full valuation of the tax base / population)	66,224	10.0%	A
Enrollment trend (three-year CAGR in enrollment)	-1.7%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	34.3%	20.0%	Aaa
Net cash ratio (net cash / operating revenue)	41.0%	10.0%	Aaa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	506.3%	20.0%	Baa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	15.1%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			A1
Assigned Rating			Aa2

Sources: US Census Bureau, Northwest L.S.D. (Hamilton County), OH's financial statements and Moody's Investors Service

Appendix

Exhibit 4

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

Endnotes

- 1 Fiscal 2021 general fund projections includes approximately \$730,000 in encumbrances, which are excluded from available general fund balance and cash calculations.
- 2 The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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