

ISSUER COMMENT

16 May 2019

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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North Union Local School District, OH

Annual Comment on North Union Local Schools

Issuer Profile

North Union Local School District is located in Union County in central Ohio, approximately 35 miles northwest of Columbus. The county has a population of 54,688 and a moderate population density of 125 people per square mile. The county's median family income is \$90,023 (1st quartile) and the March 2019 unemployment rate was 2.9% (1st quartile) ². The largest industry sectors that drive the local economy are manufacturing, administrative/waste management services, and professional/scientific/technical services.

Credit Overview

The credit position for North Union Local Schools is strong, and its Aa3 rating is equivalent to the median rating of Aa3 for school districts nationwide. Notable credit factors include a very healthy financial position, a healthy wealth and income profile and a modestly sized tax base. Also reflected are a manageable debt burden and an inflated pension liability.

Finances: The district has a robust financial position, which is favorable when compared to the assigned rating of Aa3. The fund balance as a percent of operating revenues (62.8%) is far stronger than the US median, but decreased from 2014 to 2018. Also, North Union Local Schools' cash balance as a percent of operating revenues (62.8%) is far superior to the US median.

Economy and Tax Base: The economy and tax base of the district are solid. That said, they are slightly unfavorable relative to its Aa3 rating position. The full value per capita (\$83,987) is roughly equivalent to the US median, and increased from 2014 to 2018. Moreover, the median family income is 98.3% of the US level. Lastly, the total full value (\$676 million) is weaker than other Moody's-rated school districts nationwide.

Debt and Pensions: North Union Local Schools has an affordable debt burden and is a credit strength relative to the assigned rating of Aa3. The net direct debt to full value (0.8%) is under the US median, and contracted from 2014 to 2018. On the other hand, the pension liability of the district is elevated and is quite unfavorable when compared to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (3.2x) is unfavorably well above the US median.

Management and Governance: Ohio school districts have an Institutional Framework score ³ of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are property taxes and state aid. Local property tax rates can be increased with voter approval only. Some school districts also levy a local income tax, if approved by voters.

Revenues and expenditures tend to be predictable. Ohio has public sector unions, which can limit the ability to cut expenditures.

Sector Trends - Ohio School Districts

Ohio school districts generally face a stable operating environment. The state's current biennium budget increases total school funding by 3% over fiscal years 2018 and 2019; however, the state is targeting the latest increases toward lower-wealth districts. School levy elections are becoming increasingly important throughout the state, and districts with strong voter support for new taxes can best align revenues with expenditures. Competition from charter schools is concentrated in large metropolitan areas. School district pension burdens are high, despite recent reforms including cost of living modifications that highlight the state's legal flexibility to manage pension liabilities.

EXHIBIT 1

Key Indicators ⁴ ⁵ North Union Local Schools

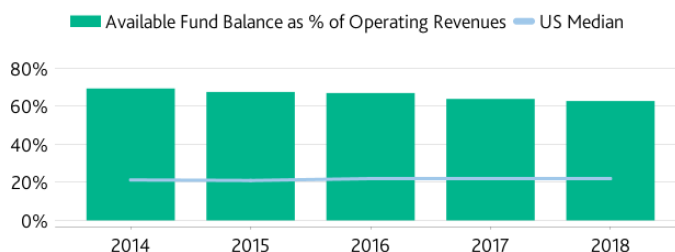
| | 2014 | 2015 | 2016 | 2017 | 2018 | US Median | Credit Trend |
|---|----------|----------|----------|----------|----------|-----------|--------------|
| Economy / Tax Base | | | | | | | |
| Total Full Value | \$587M | \$592M | \$595M | \$666M | \$676M | \$1,906M | Improved |
| Full Value Per Capita | \$76,802 | \$76,715 | \$75,558 | \$82,792 | \$83,987 | \$84,623 | Improved |
| Median Family Income (% of US Median) | 88% | 95% | 99% | 98% | 98% | 102% | Improved |
| Finances | | | | | | | |
| Available Fund Balance as % of Operating Revenues | 69.4% | 67.6% | 67.0% | 63.9% | 62.8% | 22.0% | Weakened |
| Net Cash Balance as % of Operating Revenues | 69.4% | 67.6% | 67.0% | 63.9% | 62.8% | 26.8% | Weakened |
| Debt / Pensions | | | | | | | |
| Net Direct Debt / Full Value | 1.3% | 1.3% | 1.2% | 0.9% | 0.8% | 1.5% | Improved |
| Net Direct Debt / Operating Revenues | 0.48x | 0.47x | 0.42x | 0.34x | 0.29x | 0.71x | Stable |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value | 10.0% | 8.6% | 8.5% | 8.7% | 8.7% | 2.9% | Improved |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 3.62x | 3.04x | 3.01x | 3.18x | 3.17x | 1.42x | Stable |
| | 2014 | 2015 | 2016 | 2017 | 2018 | US Median | |
| Debt and Financial Data | | | | | | | |
| Population | 7,645 | 7,726 | 7,881 | 8,049 | 8,049 | N/A | |
| Available Fund Balance (\$000s) | \$11,297 | \$11,301 | \$11,350 | \$11,647 | \$11,672 | \$8,985 | |
| Net Cash Balance (\$000s) | \$11,297 | \$11,301 | \$11,350 | \$11,647 | \$11,672 | \$10,862 | |
| Operating Revenues (\$000s) | \$16,276 | \$16,719 | \$16,935 | \$18,220 | \$18,583 | \$41,251 | |
| Net Direct Debt (\$000s) | \$7,865 | \$7,842 | \$7,051 | \$6,233 | \$5,388 | \$28,020 | |
| Moody's Adjusted Net Pension Liability (3-yr average) (\$000s) | \$58,994 | \$50,820 | \$50,905 | \$58,021 | \$58,863 | \$55,897 | |

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

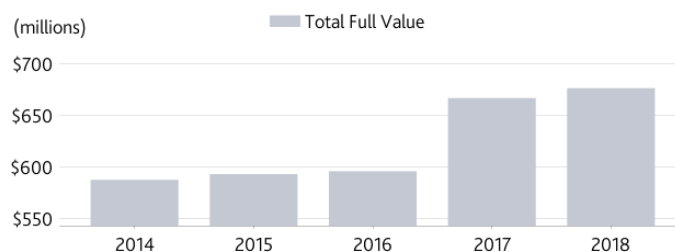
Available fund balance as a percent of operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

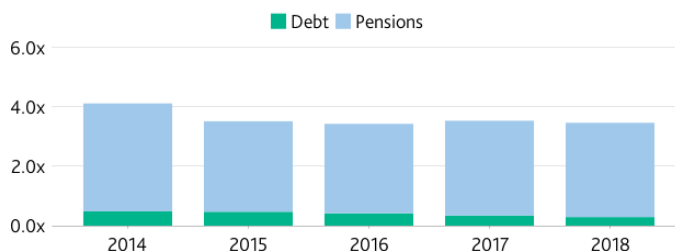
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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