

CREDIT OPINION

14 December 2017

Rate this Research



Contacts

Evan W Hess +1.212.553.3910
 Associate Analyst
 evan.hess@moodys.com

Edward (Ted) Damutz +1.212.553.6990
 VP-Sr Credit Officer
 edward.damutz@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Boone County School District, KY

Update following assignment of Initial Aa2 Issuer and Aa3 Underlying Ratings

Summary

Boone County School District, KY's sizeable tax base benefits from the presence of the Cincinnati/Northern Kentucky International Airport, which continues to be a driver of economic growth for the region. The district also benefits from above average resident wealth levels and a healthy, albeit slightly below average, reserve and liquidity position supported by prudent fiscal practices. Due to ongoing modest enrollment growth, the district's debt burden is somewhat above average given the need for additional school facilities, but will remain manageable due to future tax base growth and conservative budget management.

On December 14, we assigned an initial long-term issuer rating (implied general obligation rating) of Aa2 as well as an initial underlying rating of Aa3 to the district's School Building Refunding Revenue Bonds, Series 2017B.

Credit strengths

- » Sizeable tax base experiencing continued growth
- » Above average resident wealth levels

Credit challenges

- » Above average debt burden
- » Slightly below average reserves and liquidity relative to similarly rated districts

Rating outlook

Outlooks are not typically assigned to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant increase in the tax base and socioeconomic indices
- » Sustained trend of surpluses resulting in increased reserves and liquidity

Factors that could lead to a downgrade

- » Substantial increase in debt burden beyond current projections
- » Trend of structural imbalance resulting in deteriorated financial position

» Material contraction in tax base and weakened wealth levels

Key indicators

Exhibit 1

Boone County School District	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$12,527,247	\$12,519,676	\$12,664,487	\$13,179,554	\$13,559,010
Population	115,017	117,040	118,619	118,619	118,619
Full Value Per Capita	\$108,916	\$106,969	\$106,766	\$111,108	\$114,307
Median Family Income (% of US Median)	121.4%	121.1%	119.1%	119.1%	119.1%
Finances					
Operating Revenue (\$000)	\$172,673	\$180,677	\$187,690	\$196,294	\$199,806
Fund Balance (\$000)	\$25,268	\$30,084	\$33,810	\$34,932	\$37,836
Cash Balance (\$000)	\$24,909	\$33,300	\$36,129	\$32,525	\$35,676
Fund Balance as a % of Revenues	14.6%	16.7%	18.0%	17.8%	18.9%
Cash Balance as a % of Revenues	14.4%	18.4%	19.2%	16.6%	17.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$204,838	\$196,612	\$184,452	\$182,359	\$200,813
3-Year Average of Moody's ANPL (\$000)	N/A	\$116,616	\$105,443	\$96,564	\$91,283
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	0.9x	1.0x
Net Direct Debt / Full Value (%)	1.6%	1.6%	1.5%	1.4%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.6x	0.6x	0.5x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.9%	0.8%	0.7%	0.7%

Source: Boone CSD KY Audited Financial Statements; Moody's Investors Service

Profile

Boone County School District is located in Northern Kentucky ([The Commonwealth of Kentucky](#), Aa3 stable), across the Ohio River from the [City of Cincinnati, OH](#) (Aa2 stable). The district is the third largest in the commonwealth and has an estimated enrollment of 18,588 (average daily attendance for the 2016-17 school year).

Detailed credit considerations

Economy and Tax Base: Growing Tax Base Benefitting from the Presence of the Cincinnati/Northern Kentucky International Airport

Boone CSD's sizeable and diverse \$13.6 billion tax base is largely based in services, trade, transportation, and manufacturing and will continue to expand in the near term given ongoing development. The district is located along the Ohio River, immediately south of the City of Cincinnati and within the Cincinnati Metropolitan Statistical Area (MSA). The Cincinnati/Northern Kentucky International Airport is a large hub for DHL, a subsidiary of [Deutsche Post AG](#) (long-term issuer rating A3 stable), Germany's incumbent provider of mail services and the world's largest logistics service. Over the last five years, the district's total assessed value has grown at an average annual rate of 1.5%. The top ten taxpayers account for just 5.1% of 2017 assessed values.

Notable developments include DHL's recent \$108 million expansion, which is expected to create 900 new jobs, and Amazon's ([Amazon.com, Inc.](#), Baa1 positive) planned \$1.49 billion investment in a new worldwide cargo hub at the airport, which is expected to bring 2,700 jobs to the region. Additionally, [Kroger](#) (Kroger Co. (The) Baa1 stable) is developing a \$60 million replenishment center that will service the company's direct-to-store distribution centers across the eastern half of the country. The district has also seen continued residential growth, such as the 800 home residential development in Union known as Ballyshannon.

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.

Resident wealth levels are comparable to the national medians for the Aa2 rating category, with a 2015 median family income equivalent to 119.1% of the US according to the most recent American Community Survey. Boone CSD's unemployment rate of 3.5% in October 2017 is favorably below the state (4.3%) and national (3.9%) rates for the period.

Enrollment levels are expected to experience continued growth in the near term. Over the past five years, enrollment has averaged a modest annual growth rate of 0.9%. Enrollment for the 2016-17 school year (average daily attendance) is estimated at 18,588, which represents a 0.8% increase from the prior year.

Financial Operations and Reserves: Healthy Reserve Position Supported By Conservative Budgetary Practices

The district's fiscal performance will remain stable given conservative budgetary practices, despite a planned use of fund balance, demonstrated by the district's history of conservative budgetary management. Fiscal 2017 ended with a \$2.9 million increase in total general fund balance to \$37.8 million, or a healthy 21.3% of general fund revenues, which is comparable to the national medians for the Aa2 rating category. The district has posted consecutive surpluses in the general fund driven by increases in local revenues related to tax base growth, increases in state revenues due to enrollment growth, and conservative expenditure management. Total general fund balance has averaged 19.4% of revenues over the past five years. The district has strategically set aside \$6.6 million in the general fund that they plan to use over time to offset future capital costs related to planned new school openings. Management anticipates using approximately \$2 million for an elementary school within the next three years. Despite the planned use of reserves for one-time capital projects, the district's reserve and liquidity position will remain adequate.

General fund revenues consist primarily of state aid (51% of 2017 general fund revenues) and property taxes (36%). The district also receives occupational license and utilities taxes, which accounted for 7% and 5% of 2017 revenues, respectively.

LIQUIDITY

Boone CSD's liquidity will also remain healthy given conservative budgeting practices. General fund cash and investments totaled \$35.7 million at fiscal year-end 2017 or a healthy 20.1% of revenues, which is comparable to the national medians for the Aa2 rating category. The district has a history of maintaining strong cash levels, averaging operating cash at 19.1% of general fund revenues over the past five years.

Debt and Pensions: Slightly Above Average Debt Burden with Moderate Future Borrowing Plans; Manageable Pension Liabilities

Despite moderate additional borrowing plans over the next several years, the district's debt burden (1.5% of 2017 full value) will remain manageable given future tax base growth. The district's net direct debt burden, while manageable, is slightly elevated compared to the national medians for the Aa2 rating category. Future borrowing plans include the issuance of approximately \$18 million in lease revenue bonds in the Spring of 2018 to finance the renovation of an office building that was donated to the district. The debt, along with \$6 million in grants from the commonwealth, will transform the office building into a technology center with a robotics lab. The district has also identified a need for a new elementary school within the next three years that will be financed with a combination of fund balance reserves and additional debt issuance.

DEBT STRUCTURE

All of the district's outstanding debt is secured by lease rental payments subject to annual appropriation. The lease revenue debt is fixed rate and amortizes over the long term.

The lease agreement automatically renews for the life of the bonds, unless the board provides written notice of termination 60 days prior to the automatic renewal date (July 1). Debt service payments are made directly to the paying agent no less than 15 days prior to the debt service due date. Additional bondholder security is derived from a leasehold interest in the projects financed with bond proceeds.

DEBT-RELATED DERIVATIVES

The district is not party to derivative agreements.

PENSIONS AND OPEB

The district participates in the Kentucky Teachers' Retirement System (KTRS) and the Kentucky County Employees' Retirement System (CERS) pension plans. Boone CSD's pension burden will remain manageable in the near term despite anticipated contribution rate

increases due to the fact that on-behalf payments from the Commonwealth of Kentucky cover the full amount of the district's annual pension costs to KTRS. The district will be able to absorb contribution rate increases to CERS given conservative budgeting practices and expenditure-reduction flexibility.

Boone CSD's annual required contribution to CERS was \$4.8 million in fiscal 2017, or a modest 2.42% of fiscal 2017 operating fund revenues. The district's 3-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$91.3 million, or 0.46 times operating fund revenues, which compares favorably to the national medians for the Aa2 rating category. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

Total fixed costs, including debt service and pension contributions, totaled approximately 14% of 2017 operating fund revenues.

Management and Governance

Boone CSD has strong management as evidenced by conservative budgeting and stable operating reserves and liquidity. While the district does not maintain formal policies surrounding reserve levels, historical trends present a demonstrated ability to manage reserves at sound levels.

Kentucky School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 4% still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Kentucky is a Right to Work state, providing significant expenditure-cutting ability. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1105032

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454