FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Dayton City School District, OH's IDR at 'A-'; Outlook Stable

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Fitch Ratings - Chicago - 08 Feb 2023: Fitch Ratings has affirmed the following underlying ratings for Dayton City School District, Ohio (the district):

--The district's Issuer Default Rating (IDR) at 'A-';

--$89.2 million unlimited tax general obligation (ULTGO) bonds at 'A-';

--$1.1 million limited tax general obligation (LTGO) bonds at 'A-';

--$7.6 million certificates of participation (COPs) series 2012 at 'BBB+'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING	PRIOR

Dayton City School District (OH)	LT IDR	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
Dayton City School District (OH) /General Obligation - Limited Tax/1 LT	LT	A- Rating Outlook Stable	Affirmed	A- Rating Outlook Stable
Dayton City School District (OH) /Lease Obligations - Standard/1 LT	LT	BBB+ Rating Outlook Stable	Affirmed	BBB+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

SECURITY

The ULTGO bonds are voted general obligations of the district payable from an unlimited ad valorem tax levy on all taxable property within the district.

Additional security for the series 2014 ULTGO refunding bonds is provided by the Ohio School District Credit Enhancement Program (rated 'AA+'; Outlook Stable).

The LTGO bonds are non-voted general obligations of the district payable from an ad valorem tax levy within the 10-mill limitation.

The COPs are backed by the district's obligation to make lease rental payments subject to annual appropriation. The COPs carry a leasehold interest for the benefit of certificate holders in the leased assets.

ANALYTICAL CONCLUSION

The 'A-' IDR and bond ratings reflect strong gap-closing capacity to address future economic downturns, the slow pace of revenue growth without revenue-raising measures, limited expenditure flexibility, and moderate long-term liability burden. The one-notch distinction between the IDR and the appropriation-backed bonds rated 'BBB+' reflects the slightly higher degree of optionality associated with the certificate payments subject to appropriation.

Economic Resource Base

Dayton City School District is located in Montgomery County and overlaps Harrison and Jefferson townships and the cities of Dayton, Riverside and Trotwood. The district's population of around 147,5000 has experienced a decline of 2.6% since the 2010 census. The district's unemployment rate is high compared to state and national rates, and its poverty level is more than double that of the state and nation. As of fiscal 2022, the district has been experiencing enrollment declines of around 2% per annum over the past five years.

KEY RATING DRIVERS

Revenue Framework: 'bbb'

The district's natural pace of general fund revenue growth is slow but in line with inflation. State funding makes up 73% of general fund revenues. Fitch expects the district's natural pace of general fund revenue growth to be in line with historical growth. The state restricts the district's ability to independently raise revenue by limiting un-voted property, income and sales taxes.

Expenditure Framework: 'a'

Fitch expects that the natural pace of spending growth will be above that of expected revenue growth. The district's main expenditure is instruction, which makes up 71% of general fund expenditures. Fitch believes that the district's expenditure flexibility is adequate, with moderate carrying costs for debt service, pensions and OPEB accounting at 13% of governmental expenditures offset by practical limitations on the ability to reduce spending that is related to instruction.

Long-Term Liability Burden: 'aa'

The district's long-term liability (LTL) burden at 10% is on the low end of moderate relative to the resource base, with a majority of liabilities comprised of net pension liabilities at 68% of the total and direct debt at 26%. Fitch calculates that the district's adjusted pension asset to liability ratio to be 63% assuming a 6% discount rate.

Operating Performance: 'a'

For the last eight fiscal years, the district has consistently built up reserves and ended fiscal 2021 with a fund balance of $117.6 million or 45% of spending. Despite improvement, due to the winding down of Elementary and Secondary School Emergency Relief (ESSER) funding, increasing instructional cost pressures, and uncertainty around state aid, the district's financial operations could become more challenged in an economic downturn given its restricted ability to raise revenue and limited degree of inherent budget flexibility, but Fitch expects the district to recover financial flexibility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- Demonstrated ability to match ongoing spending with revenue sources while maintaining high level general fund reserves.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Inability to match recurring cost to recurring revenues that results in sustained structural imbalances;

- Changes in the state aid that materially affects the district's natural revenue growth and its ability to maintain adequate level of reserves.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Buoyed by federal funding to pay for COVID related expenditures and driven by increased property taxes collections and intergovernmental revenues, Dayton City School District ended fiscal 2021 (June 30 FYE) with a net operating surplus after transfers of around $17 million or 6.5% of spending, bringing the unrestricted fund balance to $117.6 million or 45% of spending.

The district was allocated $50.3 million in ESSER I and II grants in fiscal 2021 and an additional $90.1 million in ESSER III in fiscal 2022, which are being used for technology upgrades, salary increases, and other resource purchases. The district reports a $26.6 million net operating surplus after transfers in unaudited fiscal 2022 actuals. While the adopted fiscal 2023 budget includes a $29.2 million projected operating deficit, management reports that year-to-date revenues currently exceed expenditures.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Dayton City School District (OH) EU Endorsed, UK Endorsed

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