

Research

Summary:

Wadsworth, Ohio; General Obligation

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Credit Profile		
US\$5.870 mil GO (Ltd Tax) cap facs bnds ser 2022 dtd 05/31/2022 due 12/01/2042		
<i>Long Term Rating</i>	AA+/Stable	New
Wadsworth GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded

Rating Action

S&P Global Ratings raised its rating on Wadsworth, Ohio's general obligation (GO) debt one notch to 'AA+' from 'AA'. The outlook is stable.

At the same time, S&P Global Ratings assigned its 'AA+' rating and stable outlook to Wadsworth's roughly \$5.87 million series 2022 limited-tax GO capital-facilities bonds.

The rating action reflects our opinion of the city's significantly improved reserves due to recent positive operating performances, coupled with improved financial-management policies and long-term planning.

The city's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, within the 10-mill limitation imposed by the Ohio Constitution and Ohio Revised Code, secure the series 2022 bonds and existing GO debt.

We rate the limited-tax GO debt at the same level as our view of the city's general creditworthiness because it collects ad valorem taxes from the entire property tax base and there are no limitations on the fungibility of resources available for debt service.

Officials intend to use series 2022 bond proceeds to fund the construction of the new College Street fire station and the cost of acquiring a fire truck.

Credit overview

Wadsworth, a suburb southwest of Akron, has experienced strong population growth during the past decade. The city has consistently outperformed its budget, increasing general fund reserves to levels more than 75% of expenditures, with no plans to spend down reserves. The city's pension plans' funded ratios are somewhat below average with assumptions we consider aggressive, in addition to annual contributions we consider somewhat elevated that could cause volatility. However, a history of, what we consider, strong finances and the maintenance of very high reserves support the rating. Therefore, we think the rating will likely remain stable during the two-year outlook.

The rating reflects our view of the city's:

- Stable economy with average wealth and income and access to the Akron metropolitan area;
- Very strong financial-management policies and practices with a strong Financial Management Assessment (FMA)

methodology--indicating financial practices are strong, well embedded, and likely sustainable--and strong Institutional Framework;

- Robust finances with sizable general fund surpluses and very strong reserves, which management expects to maintain; and
- Moderate debt with no major additional debt plans while pension and other postemployment benefit (OPEB) costs could be volatile.

Environmental, social, and governance

We have analyzed environmental and governance risks relative to Wadsworth's economy, management, and financial measures and have determined all are in-line with our view of the sector standard. The city is neither prone to extreme weather nor has it experienced any cybersecurity attacks. We view Ohio cities' reliance on income taxes from commuters as an emerging social risk due to changing work patterns. In response to COVID-19, state-approved emergency legislation temporarily allows municipalities to continue to collect income taxes as if employees were working from offices. Employers should now be withholding based on work location. We think Wadsworth's leading employer relying on in-person work substantially mitigates this risk.

Stable Outlook

Upside scenario

With all else equal, we could raise the rating further if economic metrics, such as per capita effective buying income and market value per capita, were to improve to levels we consider comparable with higher-rated peers and if pension system funding were to improve.

Downside scenario

We could lower the rating if budgetary performance were to weaken, decreasing reserves to, what we consider, weak or very weak levels, below similar-rated peers, negatively affecting budgetary flexibility.

Credit Opinion

An Akron suburb with a strong commercial and industrial presence, steady assessed value (AV) growth

The approximately 9.5-square-mile Wadsworth is in northeastern Ohio, where it serves as a bedroom community for Akron. It has major highway access to three interstate highways, providing access to Cleveland 35 miles north. The tax base is about 76% residential with a mix of commercial and industrial properties accounting for the remainder. The city has experienced strong population growth of 5,937 since 2000, or 32%. Since 2020, 15 new businesses have opened and 97 new jobs have been created in the downtown area. Management plans a downtown transportation project in 2024 to improve the quality of life citywide.

Management indicates extensive redevelopment in the northern commercial section, which has allowed residents to not travel outside Wadsworth for goods and services. The city constructed a two-mile hike-and-bike-trail park from downtown to its border.

Wadsworth's leading employers include education, health care, hotel management, and retail. AV has increased due to expansions, and management expects modest AV increases during the next two years.

Very strong financial management with a strong FMA

We have revised our opinion of Wadsworth's financial-management policies and practices under our FMA to strong from good due to continued long-term planning and formal policies. The city performs line-by-line budgeting with each department, and it uses the prior two years of historical information to assist. Management provides the city council monthly reports on updated budget-to-actual results; it can amend the budget, if needed.

Wadsworth updates its long-term, five-year financial plan annually and presents the results to the council. The city updates its formal five-year capital plan for utility funds and departments annually. Its five-year plan for firefighters and emergency-medical-services personnel reflects a 1.5-mill tax levy.

The city has its own investment-management policy, and it makes quarterly holdings-and-performance reports to the city council. Wadsworth's debt-management policy provides the council and administration a framework for making debt-related decisions. The city's formal cash-reserve policy maintains no less than 20% of combined general fund and income tax cash as a percent of budgeted expenditures after factoring in 100% of budgeted years' debt-service payment.

The city reports general fund surpluses, very strong reserves

Wadsworth annually transfers money into its street-construction fund from the general fund, so we have adjusted data to account for recurring transfers as expenditures. It levies 1.3%, which is a continuing income tax, and 0.10%, which is temporary for 10 years and is its largest general fund revenue stream, accounting for 55%. During the past several fiscal years, the city has demonstrated strong general fund performance with annual surpluses of 10% of expenditures or more due largely to conservative budgeting.

Officials are projecting fiscal 2021 closed with a \$1.5 million surplus as income tax revenue bounced back to levels even higher than before COVID-19. The surplus will result in general fund reserves increasing to \$11.4 million, and remaining more than 75% of expenditures, which we view as very strong. Officials report there are no plans to spend down reserves from current levels.

While Wadsworth has an essentially breakeven fiscal 2022 budget, officials expect to close better than budgeted, likely in-line with prior-year results. Due to the timing of budget preparation and inconsistent previous-year numbers, we expect income tax revenue to exceed the 1% budgeted based on known industrial expansions and the local economy.

The city received \$1.7 million of CARES Act funds in fiscal 2020, which it spent. Officials, however, expect an additional \$2.5 million, which it will use to improve facilities with a focus on long-term water-and-sewer and park improvements. Based on additional stimulus and a record of strong budgetary performance, we expect positive fiscal trends will likely continue.

Manageable debt with no additional borrowing plans

Following the series 2022 issuance, Wadsworth will have \$107.4 million of net debt, 64% of which is overlapping from other municipalities. We understand the city does not currently have any additional debt plans during the next two years.

Pension and OPEB liabilities have average funding, higher-than-average discounts

Wadsworth participates in:

- Ohio Public Employees' Retirement System, which is 87.2% funded, with a proportionate share of the plan's net pension liability of \$14.5 million;
- Ohio Police & Fire Pension Fund, which is 70.7% funded, with a proportionate share of the plan's net pension liability of \$8.9 million; and
- Wadsworth's OPEB, which is 115.6% funded, with a proportionate share of the plan's net OPEB asset of \$1.3 million.

(For further information, please see the article, titled "Pension Spotlight: Ohio," published Jan. 7, 2021, on RatingsDirect.)

Wadsworth's combined required pension and actual OPEB contribution totaled 11.3% of total governmental fund expenditures in fiscal 2021. We expect long-term pension and OPEB costs could face volatility due to aggressive assumptions and amortization methods designed to defer contributions. In our opinion, past pension and recent OPEB reforms help mitigate cost-escalation risk.

Strong Institutional Framework

The Institutional Framework score for Ohio municipalities is strong.

Wadsworth, Ohio Select Key Credit Metrics

	Most recent	--Historical information--		
		2020	2019	2018
Adequate economy				
Projected per capita effective buying income as a % of U.S.	99.6			
Market value per capita (\$)	75,296			
Population		23,692	23,626	23,408
County unemployment rate(%)		7.6		
Market value (\$000)	1,783,917	1,759,026		
10 leading taxpayers as a % of taxable value	5.7			
Strong budgetary performance				
Operating fund result as a % of expenditures		11.7	11.3	22.5
Total governmental fund result as a % of expenditures		15.0	14.4	21.9
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		89.2	75.1	70.6
Total available reserves (\$000)		9,946	8,300	7,219
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		290.2	269.1	261.1
Total government cash as a % of governmental fund debt service		4,227.8	3,689.5	4,018.6
Very strong management				
Financial Management Assessment	Strong			

Wadsworth, Ohio Select Key Credit Metrics (cont.)

	Most recent	--Historical information--		
		2020	2019	2018
Adequate debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		6.9	7.3	6.5
Net direct debt as a % of governmental fund revenue	164.4			
Overall net debt as a % of market value	6.0			
Direct debt 10-year amortization (%)	72.8			
Required pension contribution as a % of governmental fund expenditures		11.2		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0.1		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

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