

RatingsDirect®

Summary:

Wadsworth, Ohio; General Obligation

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Credit Profile

US\$5.01 mil GO (ltd tax) various purp bnnds ser 2017 due 12/01/2037

Long Term Rating AA/Stable New

Wadsworth GO

Long Term Rating AA/Stable Affirmed

Rationale

S&P Global Ratings has assigned its 'AA' long-term rating to Wadsworth, Ohio's series 2017 general obligation (GO) various purpose bonds. At the same time we affirmed the city's 'AA' long-term rating on its existing GO debt. The outlook is stable.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes within the state's 10-mill limitation secure the bonds. The city expects that debt charges on certain portions of the bonds will be paid from a combination of enterprise, special assessments, and municipal income tax revenues.

We do not differentiate between a full faith-credit-and-resources GO pledge to levy ad valorem property taxes on an unlimited and limited basis because we believe that the city possesses the financial flexibility necessary to sustain identical ratings in either scenario. (It is our understanding that the city has no unlimited tax basis.)

It is our understanding that bond proceeds for the series 2017 will be used to retire the city's outstanding various improvement bond anticipation notes (BAN), which were issued for various purposes including improvements to wastewater treatment plant, storm water, street, and other projects.

The long-term rating reflects our assessment of the following factors for the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 33% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.8x total governmental fund expenditures and 29.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 161.6% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Wadsworth's economy strong. The city, with an estimated population of 23,073, is located in Medina County in the Cleveland-Elyria, Ohio MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 114% of the national level and per capita market value of \$63,122. Overall, the city's market value grew by 11.9% over the past year to \$1.5 billion in 2017. The county unemployment rate was 4.3% in 2016.

The city is located in northeastern Ohio and consists of approximately 9.5 square miles, serves as a bedroom community for Akron and has major highway access to three interstate highways, which provides access to Cleveland that is 35 miles north of the city. The tax base consists of about 75% of residential properties with the remaining a mix of commercial and industrial.

Management team has indicated that there has been extensive redevelopment in the northern commercial section of the city, which has enabled its residents not to travel outside Wadsworth for goods and services. It recently annexed a 280 acre Brickyard Industrial Park and it is partaking in the latest project to improve traffic flow on State Route 94.

The largest employers in the city include a diverse of industry related such as education, health care, hotel management, and retail. Valuations have increased as a result of expansions and management is expecting modest increases in assessed values over the next two years.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city performs a line by line approach for its budgetary process with each department and utilizes the prior two years of historical information to assist. The budget can be amended if needed and the council is updated on a budget to actual result on a monthly basis.

The city has a long-term financial plan that is five years long and is updated annually with presentation to its council members. The city does not have a formal long-term capital plan but capital projects are incorporated into the financial plan, if needed.

The city does have its own investment policy and reports on a semi-annual basis to its council members the holdings and performance. The city does not have a formal debt management policy but does follow internal guidelines, which provides the council and administration a framework for making debt-related decisions.

The city does have a formal cash reserve policy, which is set to maintain no less than 20% of combined general fund and income tax cash as a percentage of budgeted expenditures and after factoring in 100% of the budgeted years debt service payment.

Adequate budgetary performance

Wadsworth's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of negative 10.0% of expenditures, but a slight surplus result across all governmental funds of 1.2% in fiscal 2015.

We expect the budgetary performance in the general fund to remain at least adequate if not strong despite a use of reserves of nearly \$724,000 (cash basis) in fiscal 2016 (Dec. 31) but is projecting a cash surplus for fiscal 2017 and is anticipating adopting a balanced budget for 2018.

On an operating basis for fiscal 2016 (audit not yet complete), the city had a surplus of nearly 10%, which is mainly attributed to an increase of income tax revenues to the general fund based on the city's allocation of these revenues. The city had transfers out of its general fund that totaled \$1.2 million, which included correction to its electric fund as well as a bond refund savings to its community center trust as the main components of these transfers. In addition, related to the Interstate 94 project, the city advanced out \$1.2 million in 2016 and is expecting state grants in the same amount reimbursed to it for 2017. The ending cash balance for 2016 is expected to be \$3.9 million or 31% of operating expenses and transfers out.

On an operating basis for 2017, the city is projecting a surplus of nearly 5% and after the transfers out the city is expecting to add nearly \$1.6 million with the final cash balance expected to be \$5.6 million or 43% of operating expenses and transfers out.

The last audit, 2015 on a generally accepted accounting principle basis, yielded a deficit of \$942,834, which decreased the available reserves to \$3.278 million or 33% of operating expenses and transfers out, which we consider very strong. Income tax revenues represent 50% of total general fund revenues while property and other taxes generated 25%. We anticipate these revenue streams to be consistent over the next two years in part due to the continued expansion within the city.

Very strong budgetary flexibility

Wadsworth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 33% of operating expenditures, or \$3.3 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

We expect the city's budgetary flexibility to remain very strong despite a use of reserves expected in fiscal 2017, which essentially is anticipated to be replenished in fiscal 2018. The city has no plans to materially spend down its reserves over the next two years.

Very strong liquidity

In our opinion, Wadsworth's liquidity is very strong, with total government available cash at 1.8x total governmental fund expenditures and 29.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We do not expect the city's total governmental cash position to change much over the next two years with respect to its total governmental expenditures and debt service. The majority of the city's investments are in highly rated securities, which we deem to not be aggressive. Also, it has no direct-purchase or variable-rate debt that could pose a liquidity risk, and we expect the liquidity profile will remain very strong.

Weak debt and contingent liability profile

In our view, Wadsworth's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.1% of total governmental fund expenditures, and net direct debt is 161.6% of total governmental fund revenue.

It is our understanding that the city has no debt plans over the next two years. The 2017 bond issuance takes out the marketed bond anticipation notes (BAN). The city has \$11.1 million of non-marketed BANs and does not expect to issue bonds to replace these notes and expects to pay down these BANs between its governmental and enterprise funds over the next 17 years.

Wadsworth's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 10.2% of total governmental fund expenditures in 2015. Of that amount, 9.1% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in the Ohio Public Employees Retirement System (OPERS) for pension and other postemployment benefits (OPEBs). OPERS administers three separate pension plans: traditional, combined, and member-directed. The traditional pension plan is a cost-sharing, multiple-employer defined-benefit pension plan. The member-directed plan is a defined-contribution plan and the combined plan is a cost-sharing, multiple-employer defined-benefit pension plan with defined-contribution features. (Substantially all city employees are part of the traditional pension plan). On an accrual basis the city annually pays 100% of its annual required contribution (ARC) for these plans and has done so the last three years.

The funded status for the OPERS traditional plan increased to 85% from 83% for the Dec. 31, 2015, valuation versus the 2014 valuation. The city's proportion of the net pension liability for OPERS traditional plan was 0.08% for fiscal 2014 with the proportionate share of the net pension liability being \$9.692 million for 2014.

The city also participates in the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined-benefit pension plan. The funded status for the OP&F plan fell slightly to 72.2% from 73% for the Dec. 31, 2014, valuation versus the 2013 valuation. The city's proportion of the net pension liability for OP&F traditional plan was 0.107% for fiscal 2014 with the proportionate share of the net pension liability being \$6.597 million for 2014.

As per for the OPEB liability, the city has contributed its ARC in both plans for at least the last three years.

We do not expect the city's pension and OPEB costs to become a budgetary pressure over our outlook period.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects our anticipation that the city will maintain its very strong budget flexibility and liquidity profile, which are supported by its strong management profile. As such, we don't expect to change the rating within our two-year outlook period.

Upside scenario

If the economic metrics, such as per capita effective buying income and market value per capita, improve and are comparable with those of higher-rated peers and as long as the other rating categories do not deteriorate, we could

raise the rating.

Downside scenario

If the budgetary performance falls to weak or very weak and negatively affects the budgetary flexibility to reserve levels below those of similarly rated peers, the rating could be pressured.

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