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June 15, 2012

Summary:
Green, Ohio; Miscellaneous Tax

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Credit Profile		
US$21.675 mil comnty learrning ctrs income tax rev rfdg bnds ser 2012 due 12/01/2032		
Long Term Rating	AAA/Stable	New
Green City income tax		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to the City of Green, Ohio's series 2012 community learning centers (CLC) income tax revenue refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the city's series 2004 CLC income tax revenue bonds. The ratings reflect the pledge of a 2% city income tax. However, the city charter requires that 7% of total income tax revenues be used for park and recreation capital purposes, resulting in the bonds having a subordinate claim on that portion of revenues.

The ratings also reflect the following credit strengths:

- Revenue stream that has been fairly stable with a quick recovery from the recession, averaging 2% growth between 2006 and 2010 and growth projected to continue;
- The city's diversifying economy with access to the Akron and Canton employment bases coupled with a below-average unemployment rate;
- Strong 10.5x coverage (netting out the 7% charter allocation) of maximum annual debt service (MADS);
- Strong additional bonds test (ABT) requiring a minimum 3x coverage of MADS for the issuance of parity debt and a minimum 1x coverage of annual CLC debt service from the income tax and the school district contribution; and
- The little likelihood that the city will bond down to its ABT because of its reliance on income tax revenues for general operations.

Bond proceeds will partially refund the city's series 2004 CLC income tax revenue bonds for interest cost savings.

Securing debt service is a pledge of the city's 2% income tax; however, by city charter, 7% of the income tax revenues must first be used for parks and recreation capital purposes, creating a subordinate lien on this portion of the income tax revenues for the bonds. Voters approved an additional 1% income tax rate, bringing the total to 2% in November 2003 (effective January 2004). The 2% income tax is in place for a continuing period of time.

Ohio statute allows cities and school districts to partner and jointly acquire, construct, operate, or maintain community learning centers. This statute allows the funding of such projects to come from sources outside the normal parameters of school district capital project funding. For Green, the funding source is the proceeds from the voted additional 1% income tax (part of the city's total 2% income tax rate). A cooperative agreement between the city and the district has been signed outlining the specific funding, obligations, and usage of the community learning centers. Included in this is the contractual obligation of the school district to contribute any funds for debt service in excess of $1 million. With a relatively flat debt service schedule, this equals approximately $520,000.

The flow of funds requires the city to set aside the portion of income tax receipts attributable to the 2% income tax and make quarterly transfers on the dates and in amounts outlined in the trust indenture to the trustee-held bond fund. In the event the amount in the bond fund is not sufficient to pay debt service as set forth in the schedule, the city immediately shall make up the deficiency from excess income taxes or amounts in the CLC project fund if available. The school district will make its annual contribution in two installments to the trustee or the city on May 15 and Nov. 15. Debt service on the bonds is due on June 1 and Dec. 1.

Green spans approximately 33.5 square miles and is located midway between Akron and Canton, along Interstate 77 in Summit County. The city had a 2010 population of 25,699, a 12.6% increase over 2000 and a 34% increase since 1990. Because of its close proximity to Akron and Canton, residents have access to a large employment base.

Income tax revenues have been fairly stable and, despite being affected by the recession, made a quick recovery. Revenues (based on audited information) grew at an average annual rate of 2% between 2006 and 2010 to $17.2 million. This trend includes a decrease of 5.6% in 2009, followed by an increase of 4.1% in 2010. Unaudited income tax revenues grew by 6.3% in 2011 to $18.2 million, and management projects further growth in 2012. Income tax revenues of $17.2 million in 2010 provided MADS ($1.5 million in 2013) coverage of 10.5x after netting out the 7% charter allocation.

For the ABT, "parity" debt includes income tax revenue debt as well as any future GO debt that will statutorily pledge income taxes. The ABT is two-pronged. The first part requires a coverage test where average annual income tax revenues for the two previous years must equal to 3x MADS on all parity bonds and proposed bonds. When taking into account the 7% charter allocation, the effective ABT becomes 2.8x. The second part requires a coverage test for which the projected CLC revenues (the 2% income tax plus the district's annual contribution) equals 1x each successive year's projected debt service on CLC debt only. The test allows for projected CLC revenues to include a 2.5% annual growth factor. The city does not have any plans to issue debt backed by an income tax pledge at this time. In addition, given that 79% of the city's operating revenues come from income taxes, it is unlikely that the city will bond down to its ABT.

A debt service reserve will only be funded at the least of MADS, 125% average annual debt service or 10% of bond proceeds if coverage of MADS based on the average annual revenues of the two preceding calendar years is less than 3x. In the event the reserve is required to be funded, the city may do so over a three-year funding schedule.

Outlook

The stable outlook reflects the fairly stable annual growth in income tax revenue receipts and debt service coverage that is strong enough to allow for potential fluctuations in income tax receipts, and the city's strong and diversifying economic base. Although we do not anticipate the rating to change in the two-year time frame of the outlook given the strong coverage, if changes in local employment caused income tax revenue to significantly decrease the rating could be pressured downward.

Related Criteria And Research

USPF Criteria: Special Tax Bonds, June 13, 2007

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