

# OMAC MuniNews

Volume 9, Issue 3

News & Views About the Ohio Municipal Finance Industry

November 2007

This newsletter is available on our website: [www.ohiomac.com](http://www.ohiomac.com)

## Ohio's Municipal Credit Ratings Remain Buoyant Despite Ongoing Pressures

Municipal credit ratings in Ohio have remained stable, despite economic pressures from auto-related plant closings and the softening housing market.

In addition, despite major flooding in north-central Ohio last month, the credit quality of the affected municipalities are not expected to sustain long-term impairment, particularly because of the quick declaration of state and federal disaster status, and the expectation that federal and state funding will reimburse many of the costs.

Cash flow needs before reimbursement from the state and federal governments pose some credit issues. While municipalities may choose to secure short-term financing through a local bank, the relatively quick approval of grant requests should limit the need to secure more long-term financing for disaster-related expenditures. Generally, FEMA takes action on grant requests within 45 days, reimbursing both labor and project costs.

Standard & Poor's maintains ratings on four municipalities within the declared disaster areas (counties of Crawford ('A-'), Hancock ('AA-'), Putnam ('A'), and the city of Findlay ('AA')).

### Ratings Criteria

Overall, Standard & Poor's rates the debt of 56 Ohio municipalities, with ratings ranging from 'AAA' to 'BBB-'. There are three 'AAA' rated municipalities and 30 communities in the 'AA' rating category. Standard & Poor's, in general, assesses credit ratings according to established criteria using several factors outlined in this article.

### Economy: a bedrock of fiscal health

The local economy's strength is typically the most critical element in determining an issuer's rating. The

rating analysis starts with an assessment of the issuer's economic characteristics, incorporating both local and national economic factors and trends. We view the economy as the foundation of a community's fiscal health.

Important economic factors include the municipality's:

- Population trends,
- Employment depth and diversity,
- Income and property wealth indicators, and
- Tax base growth.

An issuer's geography, access to transportation networks, and proximity to major employment markets are also play key roles in the rating analysis. Municipalities located near larger cities, such as those within the Columbus or Cleveland MSA, are given credit for being part of a broader and more diverse economy.

### Financial operations: performance and flexibility are key

Financial performance and flexibility are also important considerations in evaluating a municipality's creditworthiness. In general, finances must support the rating. Troubled financial operations, such as a string of fiscal imbalances or thinning reserves, can lead to lowered ratings.

Key financial factors that Standard & Poor's examines include the municipality's:

- Accounting and reporting methods,
- Revenue structure and flexibility,
- Expenditure flexibility,
- General fund balance and unrestricted cash levels,
- Historical financial performance and growth in both revenues and expenditures,
- Contingent financial obligations, such as off-balance-sheet debt or pension liabilities; and
- Additional expected increases in health care, labor,

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and other costs relative to capacity for revenue growth.

### Management: good practices can overcome weaknesses

Financial management is another major factor in our evaluation of state and local government creditworthiness. Communities can surmount economic weaknesses or financial challenges with solid management practices.

Important management issues that we consider are the municipality's:

- General fund balance policies or targets,
- Expenditure controls and flexibility,
- Frequency of budget reconciliations,
- Degree of multiyear financial forecasting, and
- Capital planning and debt management.

Standard & Poor's Financial Management Assessment is designed to produce a transparent appraisal of a municipality's financial practices and is an integral part of the government rating process.

### Debt: direct and overlapping debt scrutinized

To determine the magnitude of an issuer's debt burden, Standard & Poor's examines both the municipality's direct debt and overlapping debt from other governmental entities.

Key debt ratios are the municipality's:

- Overall debt burden on a per capita basis and as a percent of total property market value,
- Debt service carrying charges, and
- Debt amortization schedule.

Standard & Poor's compares key debt ratios with national statistics for rated communities with comparable populations. If a community's debt ratios are significantly higher than national averages, it could be troublesome from a ratings perspective, even leading to a downgrade.

### Comparisons Serve Their Purpose

While Standard & Poor's does not solely rely on comparative data to determine a credit rating, economic and financial comparisons serve to develop a profile for each rating category.

### 'AAA' Rated Municipalities

There are more than 50 'AAA' rated municipalities in the U.S., three of which are in Ohio. Franklin County and Ohio's capital city Columbus, which is located in Franklin County, are both rated 'AAA'. Westlake, a suburb of Cleveland, located in Cuyahoga County also carries a 'AAA' rating.

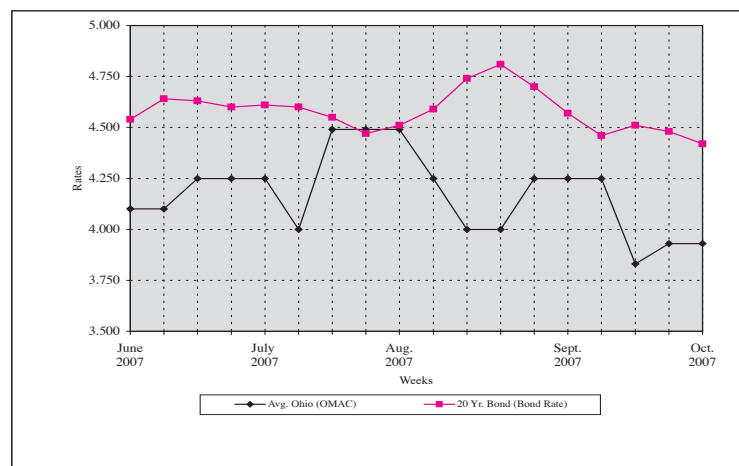
The 'AAA' communities exhibit exceptionally strong economic and financial characteristics and have excellent management practices. These municipalities have very strong financial positions, reflecting diverse

## MARKET UPDATE

### GENERAL OBLIGATION

#### Note and Bond Interest Rates for June through September

The following graph compares Ohio short-term note rates with the Bond Buyer's 20 year bond index. The short-term rates represent actual rates reported to OMAC by Ohio purchasers and reported on OMAC's weekly calendar.



revenue sources with well-defined parameters for liquidity, investments, and interfund transfers despite the recent soft economic environment.

The 'AAA' rated Ohio municipalities were not significantly affected by the recent weather-related damages.

### 'AA' Category Municipalities

Standard & Poor's rates 30 Ohio communities in the 'AA' category, which includes ratings of 'AA+', 'AA', and 'AA-'. The income and per capita market value indicators associated with 'AA' category communities tend to be very high. Overall, these communities have diverse property tax bases, representing a sound mix of residential and commercial properties. Very strong finances are the norm in 'AA' rated communities, and the average unreserved GAAP fund balance for the category is equal to 45%. These communities also tend to have excellent management practices, which are not reflected in the quantitative data.

The August 2007 flooding hit one municipality in the 'AA' rating category, the city of Findlay, Hancock County, hard. The Blanchard River, which passes through the city crested at about 7.5 feet above the flood stage. Nevertheless, Standard & Poor's expects Hancock County to recover without any rating change.

### 'A' Category Municipalities

Ohio has 20 communities represented in Standard & Poor's 'A' category, which are dispersed statewide. The 'A' category consists of issuers rated 'A+', 'A', or 'A-' that have sound economic and financial characteristics and tend to have income and wealth indicators on par with national averages.

Two counties that fall within the 'A' category range are part of the declared disaster area. Crawford County, suffered heavy damages when the Sandusky River peaked well-above flood levels, and Putnam County, which has more than 340 linear miles of streams and rivers, reported extensive damage.

### 'BBB' Category Municipalities

There are only three Ohio communities in the Standard & Poor's 'BBB' category, which includes 'BBB+', 'BBB', and 'BBB-'. Generally, issuers in this category have at least one substantial fundamental weakness such as a very concentrated property tax base or a limited local economy without ties to a larger metropolitan

## Ohio Municipalities

### AAA

Columbus Franklin County  
Westlake

### AA+

Central Ohio Solid Waste Authority  
Cincinnati Cuyahoga County  
Delaware County Indian Hill Village  
Shaker Heights Solon  
Wyoming

### AA

Cleveland Height Gahanna  
Liberty Township Medina County  
Montgomery County New Albany Village  
Ottawa Hills Village Portage County  
Powell Summit County  
Willoughby Worthington

### AA-

Akron Bedford  
Findlay Green City  
Hancock County Hilliard  
Medina County District Library  
Munroe Falls Sharon Village  
Sylvania Area Joint Recreation District

### A+

Canton Champaign County  
Dayton Heath  
Logan County Lucas County  
Parma Wooster

### A

Bath Township Cleveland  
Clinton County Crawford County  
Franklin Huron  
Parma Heights Putnam County  
Toledo

### A-

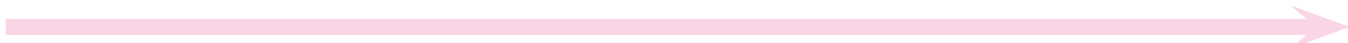
Ashtabula Oakwood Village  
Urbana

### BBB+

Carroll Water and Sewer District  
Washington

### BBB-

Youngstown



area. Financial pressures are usually evident, with declining revenue streams further exacerbating these pressures.

There are no municipalities from the 'BBB' rating category that fall within the disaster declaration areas.

#### Rating Revisions Require Material Changes

A rating revision, whether an upgrade or downgrade, requires a material change in an issuer's credit profile. Usually, material changes are economic or financial but alterations to debt burden or management initiatives may trigger a downgrade or an upgrade. Examples of material economic changes are substantial employment or property tax base growth (perhaps through redevelopment efforts) or declining or increasing income levels. Material financial changes may also reveal a trend of rising or falling reserves with projections that indicate management will sustain the revised levels.

## OMAC Announcements

***Jamie Wilhelm has accepted the position of senior vice president of public/private transactions at the American Campus Communities, Inc (ACC). Prior to joining ACC, Jamie was managing director of the higher education sector at RBC Capital Markets.***

***John Petty of NatCity Investments and Charles Postel of Keybank Capital Markets have recently announced their retirements.***

***OMAC would like to thank Jamie, John and Chuck for their many years of service to OMAC. We wish them the best in their future endeavors.***

## TMAC Announcements

***Laura Slaughter has been named executive director of the Advisory Council of Texas (TMAC). Laura replaces Dan Black who has accepted the position of Senior Director with Fitch Ratings in Austin Texas.***

## Rating Category Ratios

Rating category	Median household EB (% of U.S.)	Per capita EBI (% of U.S.)	Total market value (\$)	Market value* (\$)	Unreserved GF balance (% of expenditures)	Annual debt service (% of operating expenses)	Overall net debt (% of market value)	Overall net debt* (\$)
'AAA' category average	113	129	46,080,330	85,903	49	10	4	2,807
AA' category average	137	144	12,208,097	99,252	45	9	3	2,907
'A' category average	89	87	4,849,370	62,810	21	6	2	1,221
'BBB' category average	82	83	973,227	101,550	24	7	2	2,061

\*Per capita EBI-effective buying income. GF-general fund

## OMAC Announces Board of Trustees for 2008



From Left to Right: Matthew McAuliffe, John Adams, James J. Balazsy Jr., Matt Stuczynski, Stephen Szanto, William Matlock (Chairperson/President), Alan Bauccho (Treasurer), Paul Stubbins, Jeff Rink and OMAC Director Ken Gurney. Trustees Terri Stewart and Timothy McCabe not pictured.

The following people were elected by the OMAC membership at the October 19, 2007 Annual Membership Meeting: Alan Bauccho of Wachovia Securities, Cleveland; Terri Stewart of RBC Capital Markets, Cincinnati and Matt McAuliffe of PNC Capital Markets, Columbus. Their terms of office are for three years and will expire at the Annual OMAC Membership Meeting of 2010.

OMAC congratulates William Matlock of SBK-Brooks Investments, Cleveland on his election by the Board of Trustees as Chairperson/President of the Board for 2008. Mr. Matlock was elected on October 19, 2007 at the Board of Trustees meeting. At the same meeting Alan Bauccho of A.G. Edwards & Sons, Cleveland was elected to serve as Treasurer to the Board of Trustees. OMAC also thanks Jim Balazsy for his leadership as Chairperson/President of the Board of Trustees for 2007.

### *The OMAC Board of Trustees for 2008:*

Chairperson/President William Matlock SBK-Brooks Investments, Cleveland  
 Treasurer Alan G. Bauccho Wachovia Securities, Cleveland  
 John Adams Fifth Third Securities, Columbus  
 James J. Balazsy, Jr. Victory Capital Management, Cleveland  
 Matthew McAuliffe PNC Capital Markets, Columbus  
 Timothy McCabe Huntington Capital Corp., Columbus

Jeff Rink KeyBanc Capital Markets, Cleveland  
 Terri Stewart RBC Capital Markets, Cincinnati  
 Paul Stubbins RBC Capital Markets, Cincinnati  
 Matt Stuczynski NatCity Investments Inc., Cleveland  
 Stephen Szanto Fifth Third Securities, Inc., Cleveland



### *OMAC Recognizes Trustees*

Former OMAC Trustee John Petty receives recognition award from OMAC director Ken Gurney (Photo). Also recognized at the 2007 General Membership meeting for their service to the OMAC board were former trustees Jamie Wilhelm and Charles Postel.





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## CALENDAR

### *Calendar of Issuer Conferences & Outings for 2007*

NAME	EVENT	DATE	LOCATION
CAAO	Winter Conference	November 14 - 16	Embassy Suites - Dublin, Ohio
CCAO	Winter Conference	Dec. 2 - 7	Hyatt Regency – Columbus, Ohio
CTAO	Fall Meeting	November 13 – 15	Marriott Northwest at Tuttle Crossings – Dublin, Ohio
OSBA	Capital Conference	November 11 - 14	Hyatt Regency - Columbus Convention Center
SIFMA (BMA)	Annual Meeting	November - 7 - 9	Boca Raton Resort & Club – Boca Raton, Florida

CAAO – County Auditor’s Association of Ohio – (614) 228-2226  
 CCAO – County Commissioners Association of Ohio – (614) 221-5627  
 CTAO – County Treasures Association of Ohio – (614) 233-6818  
 GFOA – Government Finance Officers Association – (614) 221-1900  
 MFOA – Municipal Finance Officers Association of Ohio – (614) 221-4349  
 NACO – National Association of Counties – (614) 221-5627  
 OAPT – Ohio Association of Public Treasurers – (216) 443-7814

OASBO – Ohio Association of School Business Officials – (614) 431-9116  
 OMCA – Ohio Municipal Clerks Association – (614) 221-4349  
 OPFOTP – Ohio Public Finance Officers Training Program – (330) 672-7148  
 OSBA – Ohio School Boards Association – (614) 540-4000  
 SIFMA (formerly BMA) – Securities Industry & Financial Market Association – (212) 608- 1500

If you would like your event highlighted, contact Chris Scott at 1-800-969-6622, or by email at [Chris@ohiomac.com](mailto:Chris@ohiomac.com)