MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to the City of Medina's (OH) $9.3 million GOLT Various Purpose Refunding Bonds, Series 2013A (Tax-Exempt) and $5.1 million GOLT Various Purpose Refunding Bonds, Series 2013B (Taxable)

Global Credit Research - 30 May 2013

Aa1 rating applies to $30.4 million post-sale general obligation limited tax debt

MEDINA (CITY OF) OH
Cities (including Towns, Villages and Townships)
OH

Moody's Rating

ISSUE		RATING
General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013A		Aa1
Sale Amount	$9,275,000	
Expected Sale Date	06/05/13	
Rating Description	General Obligation Limited Tax	
General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013B (Federally Taxable)		Aa1
Sale Amount	$5,125,000	
Expected Sale Date	06/05/13	
Rating Description	General Obligation Limited Tax	

Moody's Outlook

Opinion

NEW YORK, May 30, 2013 --Moody's Investors Service has assigned a Aa1 rating to the City of Medina's (OH) $9.3 million General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013 and $5.1 million General Obligation (Limited Tax) Various Purpose Refunding Bonds, Series 2013B. Concurrently, Moody's maintains the Aa1 rating on the city's outstanding general obligation limited tax debt. Post-sale, the city will have $30.4 million in long-term general obligation limited tax debt outstanding.

SUMMARY RATINGS RATIONALE

Debt service on the bonds is secured by the city's general obligation limited tax pledge, subject to the State of Ohio's (general obligation rated Aa1/stable) 10 mill limitation. Proceeds from the Series 2013A and 2013B bonds will refund the city's outstanding General Obligation Various Purpose Bonds Series 2010B for net present value savings. Assignment and maintenance of the Aa1 rating reflects the city's modestly sized tax base located near Cleveland (general obligation rated A1/stable outlook) and Akron (general obligation rated Aa3); strong financial operations characterized by conservative budgeting, multi-year financial plans, and ample reserve levels; some reliance on economically sensitive income tax revenues; and an above average debt burden.

STRENGTHS

- Ample General Fund reserves and liquidity

- Strong and conservative management team with internal controls and multi-year forecasting

CHALLENGES

- Reliance on economically-sensitive income tax revenues

- Modestly sized tax base experiencing recent valuation declines

- Average socioeconomic indices

DETAILED CREDIT DISCUSSION

STABLE AND MATURE TAX BASE IN CLEVELAND AND AKRON METROPOLITAN REGION

The city's modestly sized $1.6 billion tax base will likely remain stable over the medium term due to its favorable location in the Cleveland and Akron metropolitan regions. The city is located approximately 35 miles south of Cleveland and 20 miles west of Akron in northern Ohio. The city's tax base, fully valued at $1.6 billion in 2012, has declined at an average annual rate of 1.8% over the past five years. While earlier reductions in value were tied to the State of Ohio's phase out of the tax on tangible personal property, more recent declines have been associated with general property depreciation. Most recently the annual rate of declines has moderated with valuations declining by a modest 0.6% in 2012. The city is mature and mostly built out following rapid population growth in earlier periods and has limited room for new development. Modest population growth of 6.1% in the 2010 census (to a total of 26,678) followed growth of at least 25% in each of the prior three decades.

Most residents find employment opportunities within the city and the surrounding areas. The city is the county seat for Medina County (general obligation rated Aa1) which also serves as the city's largest employer with 1,365 employees. Other larger employers include Medina General Hospital (1,000 employees) which is now owned by the Cleveland Clinic (rated Aa2/stable outlook), Medina City School District (general obligation rated Aa2, 850 employees) and Sandridge Food Corporation (460 employees). In 2007, the city began utilizing income tax abatements which were awarded based on payroll increase targets to generate business investment and growth. Since its inception, this program has generated approximately $8.6 million in new payroll and management is projecting an additional $5.7 million in 2012. Unemployment in Medina county is 6.1% as of March 2013, which compares favorably to both the state (7.3%) and the nation (7.6%) over the same period. Residential income levels approximate both state and national medians. Per capita income is at 108% of the state and 99% of the nation and median family income is 120% of the state and 114% of the nation, according to 2006-2010 American Community Survey 5-year estimates.

STRONG FINANCIAL OPERATIONS WITH HEALTHY RESERVES AND CONSERVATIVE BUDGETING; SOME RELIANCE ON ECONOMICALLY SENSITIVE INCOME TAX REVENUES

The city's financial operations are expected to remain strong due to the presence of ample reserves, internal controls, conservative budgeting and detailed long range financial planning. The city closed fiscal 2011 with a slight GAAP basis operating deficit of $402,000 bringing reserves to $11.0 million, or an ample 157% of General Fund revenues. The fiscal 2011 shortfall followed four straight years of surplus operations and was primarily the result of a decline in intergovernmental revenue. Management is estimating a slight increase in General Fund cash reserves to $11.3 million or 69.9% of 2012 revenues. The city's adopted policy is to maintain unencumbered cash of at least 25% of General Fund expenditures in reserves. The city annually adopts five year budgets as a part of its financial planning and typically projects operating deficits in its out year projections. However, these projections are usually conservative and actual results often yield positive budget variances. The city's combined operating reserves (General Fund and Police Fund) totaled $14.8 million at the close of fiscal 2011, or a strong 124% of combined revenues.

The city is somewhat reliant on economically sensitive income tax revenues to fund operations. The city levies a 1.25% voter-approved income tax, of which 0.25% is allocated for the city's street improvement program and the remaining 1% can be allocated to other funds. In fiscal 2011, income tax revenues comprised 34% of the city's General Fund revenues, followed by property taxes (20%), state aid (17%) and fines and forfeitures (14.2%). Income taxes comprise the majority of total operating revenues, making up 55% of combined General and Police Fund revenues in fiscal 2011. Income tax revenues have remained relatively stable throughout the economic downturn. Collections dipped slightly by 6.2% and 1.5% in fiscals 2009 and 2010, respectively, but have since rebounded with 5.5% growth in 2011 and is estimated to increase by 8% in 2012. Management attributes the significant increase in income tax receipts in 2012 to income tax payers having to revise estimated annual payments up from prior years and do not expect such robust growth in 2013. Based on current projections, the city expects to see a 2-3% increase in 2013 which is more in line with prior year growth.

AVERAGE DEBT BURDEN WITH NO FUTURE BORROWING PLANS; ABOVE AVERAGE PENSION BURDEN

The city's above average debt burden is expected to remain manageable due to some non-tax levy support from utilities and a lack of future borrowing plans. Both the city's direct and overall debt burdens of 1.9% and 3.9% of full valuation exceed state and national medians. The city's principal amortization rate is average with 64.5% of outstanding general obligation debt retired within ten years. At the end of fiscal 2011, debt service comprised a modest 2.4% of total operating expenditures. Officials report no future borrowing plans at this time. All of the city's outstanding debt is fixed rate, and the city is not a party to any interest rate swap agreements.

The city has an above average employee pension burden, based on unfunded liabilities for its share of two multiple-employer plans administered by the state. Moody's has allocated liabilities of state cost-sharing plans in proportion to its contributions to each plan for analytic purposes. The city's share of unfunded pension liabilities allocated by Moody's, based on the city's pro rata share of annual contributions, consist of an estimated $5 million share of the statewide Ohio Police and Fire Pension Fund (OPFPF) and an estimated $10.2 million share of the Ohio Public Employee Retirement System (OPERS) as of the actuarial valuation dates of January 1, 2011 and December 31, 2011, respectively. The combined liability is equal to approximately 1.25 times the district's fiscal 2011 operating fund revenues. The city's annual contribution to the retirement systems in fiscal 2011 was $15.2 million, equal to 12.7% of operating revenues.

Moody's adjusted combined net pension liability (ANPL) for the district as of fiscal 2011 related to the OPFPF and OPERS state administered plans, under our methodology for adjusting reported pension data, is $38.7 million, or an above average 3.2 times operating revenues, compared to less than 1 times on average in the sector. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities

WHAT COULD CHANGE THE RATING - UP

- Significant expansion and diversification of local economy and tax base

- Improvement in resident income indices

WHAT COULD CHANGE THE RATING - DOWN

- Sustained valuation declines

- Considerable reductions in operating reserves

- Increases to debt levels

KEY STATISTICS

2010 census population: 26,678 (6.1% increase since 2000)

2012 full valuation: $1.6 billion (1.8% 5-year average annual decrease)

Estimated full value per capita: $61,523

2006-2010 Median Family Income (American Community Survey 5-Year Estimates): $71,469 (119.8% of OH, 113.5% of US)

2006-2010 Per Capita Income (American Community Survey 5-Year Estimates): $27,079 (107.8% of OH, 99.1% of US)

City of Medina unemployment (March 2013): 6.1% (Ohio: 7.3%; US: 7.6%)

Fiscal 2011 General Fund balance (GAAP basis): $11.0 million (157% of General Fund revenues)

Fiscal 2011 General and Police Special Revenue Fund balances (GAAP basis): $14.8 million (124% of combined revenues)

Overall debt burden: 3.9% (1.9% direct)

Principal amortization (10 years): 64.5%

General obligation bonds outstanding: $30.4 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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