FitchRatings

FITCH RATES COLUMBUS, OH GO BONDS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-29 June 2012: Fitch Ratings has assigned an 'AAA' rating to the following Columbus, Ohio (the city) bonds:

--$398.3 million various purpose unlimited tax bonds, series 2012A;
--$40.9 million various purpose limited tax bonds, series 2012B.

Proceeds will be used to fund various capital improvements. The bonds are scheduled for negotiated sale July 10.

In addition, Fitch affirms the 'AAA' ratings on the following outstanding debt:

--$1.484 billion ULTGO bonds;
--$376.4 million LTGO bonds.

The Rating Outlook is Stable.

SECURITY

The ULTGO bonds are secured by the city's full faith and credit and its ad valorem tax, without limitation as to rate or amount.

The LTGO bonds are secured by the city's full faith and credit and its ad valorem tax, subject to the 10-mill limitation.

KEY RATING DRIVERS

DEEP AND DIVERSE ECONOMY: The city's growing economy is deep and diverse, and benefits from the stabilizing presence of various levels of government, Ohio State University (OSU), notable healthcare institutions and financial services.

STRONG MANAGEMENT: City officials have consistently demonstrated proactive financial stewardship.

IMPROVING FINANCIAL FLEXIBILITY: The income tax increase in 2009 materially improved the city's trending operating results. Unrestricted balances in the General and Income Tax Funds provide additional margins of flexibility.

ELEVATED LONG-TERM OBLIGATIONS: The aggregate debt burden is elevated but manageable, principal amortization is rapid and future capital needs appear reasonable. Annual pension payments account for a notable portion of the city's budget.

CREDIT PROFILE

DEEP AND DIVERSE ECONOMY

Columbus is anchored by a stable and growing economic base largely composed of professional and business services, healthcare, education, and government. As the state capital and home to OSU, the city's economy remained relatively resilient during the most recent national recession. Columbus' initial recovery from the recession was slower than other Ohio metropolitan regions but this is, in part, because the city experienced smaller recessionary losses.

Significant facilities investment by the healthcare and financial services sector, namely OSU, Nationwide Children's Hospital and Nationwide Insurance, are expected to add to the city's expanding employment base with an additional 10,000 new jobs over the next five years. Also, a Hollywood Casino is slated to open in fall 2012, which will add another 2,000 jobs.

The city's April 2012 unemployment rate of 6.5% remains below both the state (7.3%) and national (7.7%) rates. The city's population has increased 11% over the past decade, and residents are nominally more educated, with 33% of the adult population attaining higher education versus 28% for the national average. Wealth levels are slightly below average with per capita income at 95% and 87% of the state and national means, respectively, but are marginally negatively skewed by the OSU student population.

IMPROVING FINANCIAL FLEXIBILITY

The city's financial position materially improved with the passage of a permanent 25% increase in the city's income tax levy to 2.5% from 2% effective October 2009. Income taxes accounted for 63% of total general fund revenues in 2008, and 69% in 2011, after the rate increase. The city reversed its negative operating trend in 2010, the first full year of collections at the new rate, recording a net operating surplus (after transfers) of $37 million (5.6% of spending). Another net operating surplus of $25.9 million in 2011 lifted unrestricted general fund balance to a solid 16.3% of spending, well above the low of 6.5% recorded before full implementation of the income tax increase in fiscal 2009.

In addition, the city retains substantial unrestricted reserves in its special income tax (SIT) fund, which totaled $157 million at 2011 year end. This balance represents an additional cushion equivalent to 22% of general fund spending. Although the city has not and does not intend to access the SIT reserves for operating relief, there are no restrictions on its usage. The SIT account is funded by the city's long-standing policy of allocating 25% of total income tax revenues to the SIT fund, and such funds are traditionally used to pay non-enterprise supported GO debt service.

STRONG FINANCIAL MANAGEMENT

Fitch believes 2012 will continue to be a challenging environment given the overall economic conditions; however, city officials continue to proactively respond to changing circumstances. Due to the state's elimination of the estate tax, accelerated phase-out of tangible property taxes, and reduction in local aid, the city calculates it will lose $13 million-$17 million in 2012 and $18 million-$20 million in 2013. Despite these projected revenue declines, the city's 2012 budget is balanced without use of nonrecurring revenues. Officials project balanced operations for fiscal year 2012 (FY12); this projection seems reasonable to Fitch, given improving economic conditions and income tax receipts which are ahead of budget through May.

Prospectively, Fitch expects the city will address any structural imbalance fully and, pursuant to a 2009 resolution, will continue to replenish its economic stabilization (rainy day) fund (part of general fund) to $50 million by 2014 year end. The rainy day fund is anticipated to total $39 million-$40 million at 2012 year end.

ELEVATED LONG-TERM OBLIGATIONS

The city's overall net debt load is above average at $3,143 per capita or 5.9% of market value. Indicative of its conservative financial practices, payout of GO debt is rapid, with 68% repaid within 10 years.

The city benefits from internal affordability policies and no exposure to derivative risk. Columbus' large $2 billion capital improvement plan primarily addresses environmental mandates for the city's sewerage system and is expected to remain self-supporting from utility fees and charges. Although the city retains substantial authorization for additional debt, officials anticipate requesting additional voted debt authorization at the November 2013 election. The city has a favorable record of voter support for debt, with 100% approval since 1985. Fitch expects the tax-supported debt burden will remain manageable due to the city's historically prudent use of available debt capacity.

Columbus provides pension benefits through two state-sponsored defined benefit pension plans and is required by law to annually fund its full annual pension contribution (APC). Historically, in addition to the city's APC payment, the city also paid the employee's portion of the pension contribution (pension pick-up). However, the city has been negotiating phase-out of this practice in recent labor contracts. All but one contract contain such clauses; the remaining contract has not yet been finalized.

The city contributed $130 million for both plans in 2011, equivalent to a high 18.5% of general fund spending. However, roughly 30% of the obligation is supported outside the general fund and a portion of the payment also included a contribution for other post-employment benefits, which, on an aggregate basis, makes the payment more reasonable. Furthermore, the city should benefit from the phase-out of the pension pick-up, which cost the city $37.3 million in 2011.

Contact:

Primary Analyst
Arlene Bohner
Director
+1-212-908-0554
Fitch, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Karen Wagner
Director
+1-212-908-0230

Committee Chairperson
Adrienne Booker
Senior Director
+1-312-368-5471

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, National Association of Realtors, Underwriter, Bond Counsel.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 15, 2011);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 15, 2011).

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Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648898
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648842