Moody's
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aaa RATING AND STABLE OUTLOOK TO CITY OF COLUMBUS' $289.5 MILLION VARIOUS PURPOSE GENERAL OBLIGATION BONDS (UNLIMITED TAX AND LIMITED TAX), SERIES 2011A, SERIES 2011B, AND SERIES 2011C

Global Credit Research - 22 Jul 2011

Aaa RATING AND STABLE OUTLOOK APPLIES TO $2 BILLION OF POST-SALE GOULT AND GOLT DEBT

Municipality
OH

Moody's Rating

ISSUE		RATING
Various Purpose Unlimited Tax Bonds, Series 2011A		Aaa
Sale Amount	$198,445,000	
Expected Sale Date	07/27/11	
Rating Description	General Obligation Unlimited Tax	
Various Purpose Limited Tax Bonds, Series 2011B		Aaa
Sale Amount	$74,440,000	
Expected Sale Date	07/27/11	
Rating Description	General Obligation Limited Tax	
Various Purpose Limited Tax Bonds (Taxable), Series 2011C		Aaa
Sale Amount	$16,575,000	
Expected Sale Date	07/27/11	
Rating Description	General Obligation Limited Tax	

Opinion

NEW YORK, Jul 22, 2011 -- Moody's Investors Service has assigned a Aaa rating to the City of Columbus' (OH) $198.4 million Various Purpose Unlimited Tax Bonds, Series 2011A; $74.4 million Various Purpose Limited Tax Bonds, Series 2011B; and $16.6 million Various Purpose Limited Tax Bonds (Taxable), Series 2011C. Concurrently, Moody's has affirmed the Aaa rating on the city's previously issued GOLT and GOULT debt. Including the current offering, the city has $2 billion of outstanding GO debt. At this time, we are also affirming the Aa2 on the city's Series 2004 and Series 2005A Riversouth Area Redevelopment Lease Rental Appropriation Bonds. The outlook on the city's credit is stable.

On July 13, 2011, Moody's placed the U.S. government's Aaa rating on review for downgrade, and published a Special Comment, "Implications of a U.S. Rating Action on Aaa-Rated Municipal Credits." The report, which is available at www.moodys.com, states that we will review all Aaa-rated municipal issuers in the Local Government sector during the weeks of July 18th and July 25th to determine whether their ratings should also go on review for possible downgrade in light of the sovereign rating action. Any review for downgrade of the City of Columbus' rating will be announced at that time.

SUMMARY RATINGS RATIONALE

The general obligation unlimited tax bonds are secured by an unlimited levy on city property for the repayment of debt; the general obligation limited tax bonds are secured by a full faith and credit taxing pledge, subject to the statutory 10-mill limitation, per Ohio state code. The lack of rating distinction between the general obligation unlimited and limited tax debt reflects the state requirement that Ohio (GO rated Aa1 with negative outlook) cities use all revenues, including available property tax millage under the ten mill limitation statutory code, for the payment of debt service prior to any other uses.

Proceeds of the Series 2011-A bonds will be used to refund the 2015 through 2022 maturities of the city's Series 2004-1 bonds for savings, as well as provide new money for various projects, including facilities improvements, equipment purchase, and transportation improvements. Proceeds of the Series 2011B bonds will be used to refund the 2015 through 2023 maturities of the city's Series 2004-2 bonds, as well as provide additional funds for various equipment purchases, technology improvements, and economic development projects. Proceeds of the Series 2011C bonds will be used for economic development projects, including public improvements to the location for the casino set to open in Columbus in late 2012. Net present value savings on the two series of bonds being refunded is estimated to be approximately 5% of refunded par.

The Aaa rating and stable outlook on the city's $2 billion of general obligation unlimited and limited tax debt reflects the city's large and diverse economy that benefits from stabilizing institutions; conservatively managed debt profile, strengthened by substantial untapped levy authority; and satisfactory financial operations that are supported by ample alternate liquidity and prudent fiscal policies and management. The Aa2 rating on the lease revenue bonds is notched from the city's general obligation rating due to the risk of non-appropriation and the non-essentiality of the redevelopment project financed by the bonds.

STRENGTHS

-Sizeable tax base that benefits from its central role in the state and regional economy and the stabilizing effect of major institutions including federal, state, and local government, major health care institutions, and The Ohio State University (revenue debt rated Aa1/stable outlook), one of the largest universities in the country.

-Prudent fiscal and debt management policies and practices that support a healthy financial position over the long-term and insure timely repayment of debt obligations, despite cyclical economic challenges.

-An expectation that the city will continue to restore depleted reserves as planned

-Demonstrated political and public support for budgetary adjustments and revenue enhancements when needed.

CHALLENGES

-Dependency on income tax revenues that cycle with economic conditions, illustrated by income tax shortfalls in FY2008 and FY2009 that required significant use of the city's General Fund balance.

-Continued expenditure growth challenges, including the restoration of staffing and maintenance of service levels that may compete with the city's ability to replenish depleted reserves.

DETAILED CREDIT DISCUSSION

LARGE ECONOMIC BASE EXPECTED TO REMAIN STABLE DUE TO SIGNIFICANT INSTITUTIONAL PRESENCE

Located in the center of the state, Columbus is Ohio's capital city and, unlike many other large cities that have lost population over the last decade, population growth and economic investment in Columbus remain steady. Population increased 12.4% between the 1990 and 2000 census and 10.6% between the 2000 and 2010 censuses, with a current population of approximately 787,000. The city's full value is a sizeable $45 billion, though average annual taxable value growth has been limited due to the state's phase out of tangible personal property values coupled with modest new construction growth. Further, while the city saw a 10.3% increase in assessed valuation during the sexennial reappraisal in 2006, the 2009 triennial update was muted by the county's decision to apply a 0% growth rate to all residential properties. As a result, the city's average annual full valuation growth over the last five years has fallen to a minimal 0.9%. However, we do not believe that this trend fully captures development activity in the property tax base as a significant portion of new growth has occurred in tax increment districts. Exempted real property reached $4.1 billion, or approximately one-quarter of total assessed valuation in 2009.

Economic expansion and population growth trends are likely to remain moderate, yet stable, given the city's stable employment environment, which is anchored by the local, federal and state governments' operations, along with sizable university and health care sectors. Among the city's top employers are the State of Ohio (25,000 employees), the headquarters for OhioHealth (revenue bonds rated Aa2, with stable outlook; 7,800 employees), and The Ohio State University (55,000 students; 23,000 employees). Top private employers include JP Morgan Chase (senior unsecured debt rated Aa1/rating under review for potential downgrade; 17,000 employees) and Nationwide Insurance (insurance financial strength rated A1/stable outlook; 11,000 employees). Nationwide is headquartered in Columbus and continues to add to its employment base, with an expected 1,800 jobs to be relocated to the city over the next two years. The diversity and stability of employers in the region are important as the city's primary revenue source comes from an income tax levied on all who work and reside in the city, although a full credit is granted for any income taxes paid to another municipality.

The city's historical practice of annexing large tracts of undeveloped land and providing the new acreage with water and sewer infrastructure has been key to past expansion, including successful mixed use commercial parks such as Polaris Park and Easton Center, and Rickenbacker International Airport. While moderate annexation activity continues as needed, based on residential and commercial growth, the city has focused on redevelopment and revitalization of its downtown in recent years. The downtown Arena District is anchored by an ice hockey arena, home to the National Hockey League's Blue Jackets, and minor league baseball stadium, both of which were built within the last decade and have fostered additional commercial and residential development. Columbia Gas of Ohio recently announced relocation of its corporate headquarters to the Arena District, with an expected $51 million investment to be completed by spring 2013. The RiverSouth Authority, an independent development entity, continues to spearhead significant redevelopment in the downtown district bounded by High Street on the east and the Scioto River on the west. Its first major project, the rehabilitation of the Lazarus Building into office space is complete and almost fully occupied. Major development continues in the health care sector as well. Nationwide Children's Hospital has nearly completed its $740 million expansion, which is expected to add an estimated 1,160 new employees, and The Ohio State University has begun construction of its $1 billion new medical center and cancer hospital, expected to generate 6,000 new jobs over five years. Columbus is also one of four Ohio cities in which a new casino will be located, per recent constitutional amendments. The new casino is expected to open in late 2012. Census data indicates that city income levels just lag those of the state with per capita and median family income at 97.4% and 94.7% of state medians, respectively. Although unemployment rates have increased in the recent recession, the city's unemployment remains lower than the state, with May 2011 rates at 7.5% and 8.5%, respectively. The US rate for the same period was 8.7%.

CITY CONTINUES TO REPLENISH RAINY DAY FUND IN 2010 AND 2011; FINANCES STABILIZED DUE TO INCREASED INCOME TAX RATE

The city's financial position is expected to remain satisfactory based on its continued adherence to prudent fiscal policies and practices, and the passage of an income tax rate increase in August 2009, which has allowed the city to begin rebuilding its Rainy Day Fund (the Economic Stabilization Fund) following reductions in reserves in FY2007 through FY2009. The combined effect of the onset of the recession and a 27th pay period in FY2008 required the application of General Fund reserves, and the city experienced a significant $43 million decline in General Fund balance in FY2008, ending the year with $64.6 million, or 10% of revenues. Income tax receipts fell 1.3% for the year, compared to a budgeted growth of 3.5%, leading to an approximately $18 million shortfall in revenues. In FY2009, receipts continued to fall, with declines in income tax receipts, investment income, and state-shared revenues. In response, the city implemented numerous expenditure reductions, including furlough days and reductions in services, such as temporary closure of some recreation centers. Additionally, management implemented controls requiring higher level review of purchase orders over a certain dollar amount and prior to approving rehiring for vacant position. Recognizing the magnitude of the city's structural imbalance due to the rapid deterioration of income tax collection trends, city officials also decided to request a 0.5% increase to its income tax rate, bringing the total rate to 2.5%. While the requested increase was a substantial 25% over the existing rate, it was based on thorough deliberation over the level of services and infrastructure that officials wanted to be able to maintain over the long-term. Favorably, voters supported the city's decision and approved the increase by a comfortable margin in August 2009.

Collections on the new income tax rate generate approximately $120 million annually, with three-quarters designated for general operations and one-quarter for capital and debt service requirements, consistent with the application of the city's total income tax rate. With an effective date of October 1, 2009, the new income tax rate generated approximately $15 million in unbudgeted revenues for 2009. As a result, though the city had projected to use the entire $40 million of its Economic Stabilization Fund (ESF), it in fact ended FY2009 with a balance of $15 million. The ESF is maintained within the General Fund on a GAAP basis, and the city's policy has been to maintain this reserve at an amount equal to at least 5% of budget. City officials have continued to add to this reserve in fiscal years 2010 and 2011, bringing it to an estimated $32.7 million at the end of fiscal 2011, with a goal of restoring it to $50 million (7.5% of 2010 expenditures) by 2014. With the additional income tax revenue in FY2010, the city was able to realize a $37.2 million operating surplus in the General Fund, bringing the General Fund balance to $89 million, or a healthier, though still relatively lean, 12.6% of revenues. Favorable results for FY2010 included real growth in income tax collections, with an estimated 3% growth in collections net of the income tax rate increase. Positively, the FY2011 budget is balanced, and the city expects surplus operations based on year-to-date performance. The city had initially projected a 2% increase in income tax receipts and reports that year-to-date collections are up 7.2% over FY2010. The city budgeted a $10 million contribution to add to the ESF, which allows for additional contingencies within the budget, while also demonstrating the city's commitment to attaining full funding of the ESF by the 2014 target. Looking toward FY2012, the city is formulating plans to offset an estimated $15 million to $20 million reduction in state-shared revenues, with growth in income tax receipts expected to partially mitigate this revenue loss.

While the city retains significant alternate liquidity in additional reserves and unused property tax levy authority, the decision to increase its income tax rate demonstrates a commitment to structural balance and ongoing adherence to the city's fiscal policies. The city's codified fiscal policies are important to ensure maintenance of conservative financial practices in the event of leadership transition and given that the city's operating revenues are so heavily dependent on income tax receipts. Alternate liquidity includes non-General Fund reserves retained for debt service coverage and an untapped general obligation levy for voter-authorized debt. The city has a long-standing practice to have voters approve bonds every three or four years for a projected capital plan, with the understanding that it will be able to pay for the debt from the one-quarter of income tax receipts designated for capital. In 2011, the voter authorized debt levy, not including that which is paid from alternate enterprise revenues, would generate $85.8 million, and it would generate $87.5 million in 2012. Further, recognizing that the city is paying debt out of an economically sensitive revenue source, officials impose specific coverage requirements for any debt paid from income taxes that does not have support from alternate revenues. In FY2010, the Special Income Tax (SIT) Fund, had $146 million of accumulated balance reserved for debt service, which is accessible for operating purposes by a vote of council. This approach to debt repayment creates potential additional operating flexibility, but we understand that city officials do not anticipate accessing this alternate liquidity. Instead, this alternate liquidity provides multiple layers of security to insure the repayment of the city's debt obligations on time and in full. Council has in fact authorized the use of $9 million from this fund to pay the costs of retirements associated with the Deferred Retirement Option Program, which are expected to be realized over the next several years. Even assuming this draw, the city maintains adequate reserves within SIT Fund to meet its debt service reserve funding requirements as described below.

CONSERVATIVELY MANAGED DEBT POSITION, SUPPORTED BY UNTAPPED LEVY AUTHORITY

The city's 3.1% direct debt burden may increase in the near term, given limited tax base growth in recent years, and continued annual borrowing needs. However, we expect the debt burden will remain manageable. Our calculation of the city's debt burden includes appropriation debt issued by the RiverSouth Authority for redevelopment purposes as well as the portion of debt issued by the Franklin County Convention Facilities Authority (CFA) for which the city has provided its appropriation pledge. We note that the CFA debt is supported by other designated taxes and to date has not required any direct support from the city's budget, nor is it expected to in the near to medium term. The city's pro forma debt burden, including additional planned borrowing for 2012, increases to 3.4%, not factoring in debt that is expected to be paid from self-supporting essential enterprises such as the water and sanitary sewer funds. The city determines the amount of borrowing in accordance with an internal policy that requires dedicated income tax revenues to cover general obligation debt service by a certain coverage ratio defined by city officials. This coverage ratio is currently over 1.3 times, but has ranged from 1.2 times to 1.4 times historically. This policy both governs the city's issuance of additional bonds and debt service reserve levels. As discussed above, this policy, along with the approach to seeking voter authorization for the majority of general obligation debt issued serves as a comprehensive approach to debt management that we view to be a critical component of the city's strong credit profile. The city has approached voters 18 times (generally every four years, except for a few consecutive years in the mid-1970s) since 1956 with 88 separate bond referendum questions, with voters approving 82.

The city has $142.16 million of uninsured variable rate demand bonds in weekly mode, a small portion of which is enhanced by a standby bond purchase agreement from JP Morgan which expires in July 2012, and the majority of which is enhanced by the city's own liquidity. We believe that the amount of variable rate debt is manageable due to the city's ample liquidity, comprising a minimal 4% of the city's total debt obligations. Further, the city is required by municipal code to make available all funds necessary to purchase any bonds that have failed to have been remarketed and hold them until the earlier of maturity or successful remarketing. The city is not party to any derivative transactions.

All general obligation debt is repaid at an above average rate with nearly three-fourths of principal retired in the first ten years. Approximately half of general obligation bonds are supported by enterprise utilities, which we have backed out of the city's debt burden calculations. The city also has a portion of enterprise debt issued as utility revenue debt for its water and sanitary sewer enterprises. The city plans to issue up to an additional $572 million of general obligation debt in 2012, which includes approximately $448 million related to enterprise-supported debt.

Outlook

The stable outlook reflects our belief that the city will continue to maintain a healthy financial position over the long-term. This expectation is based on the city's ability and willingness to restore reserve levels, as demonstrated by continued appropriations to replenish the Economic Stabilization Fund, a variety of sources of revenue flexibility, and continued political and public support for necessary revenue enhancement measures. Further, we believe that the city's carefully managed conservative debt policies enhance its ability to repay debt, despite operational pressures. The stable outlook also reflects the city's sizeable tax base that benefits from a diversity of employers that we expect will continue to support long-term gains in the city's income tax, its primary revenue source.

What Could Change the Rating Down or revise the outlook to negative

-Any indication of inability or unwillingness to restore reserve levels that would appropriately reflect its Aaa rating.

-A double-dip recession that further erodes the city's income tax base, resulting in severe budgetary pressures going forward.

-The reversal or relaxing of the city's prudent fiscal policies and practices.

KEY STATISTICS:

2010 Population: 787,033 (10.6% above 2000 census)

2010 Estimated Full Valuation: $45.04 billion (Including areas in Franklin, Delaware, and Fairfield Counties)

2009 Estimated full value per capita: $57,222

2000 Per Capita Income as % of State: 97.4%

2000 Median Family Income as % of State: 94.7%

FY2010 General Fund balance: $88.9 million (12.6% of General Fund revenues)

FY2010 Special Income Tax Fund Balance: $146.1 million

Debt Burden: 5.3% (Direct: 3.1%)

Amortization (10 years): 71%

Post-Sale G.O. Debt Outstanding (includes Limited and Unlimited tax): $2.1 billion

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. 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 relevant 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 relevant 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 relevant 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.

Information sources used to prepare the rating are the following: parties involved in the ratings, parties not involved in the ratings, and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Emily Robare
Analyst
Public Finance Group
Moody's Investors Service

Henrietta Chang
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness or a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.