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FITCH RATES COLUMBUS, OHIO'S $279MM GOS 'AAA'

Fitch Ratings-Chicago-03 November 2009: Fitch Ratings assigns an 'AAA' rating to the City of Columbus, Ohio's (the city) general obligation (GO) various purpose bonds as follows (series par is approximate):

--$56,485,000 unlimited tax bonds, series 2009A;
--$9,600,000 limited tax bonds, series 2009B;
--$183,960,000 unlimited tax Build America Bonds (federal taxable - direct payment), series 2009C;
--$12,635,000 limited tax Build America Bonds (federal taxable - direct payment), series 2009D;
--$16,330,000 unlimited tax recovery zone economic development bonds (federal taxable - direct payment), series 2009E.

Series 2009A, 2009C, and 2009E are secured by unlimited ad valorem taxes; series 2009B and 2009D are secured by limited ad valorem taxes within the 10 mill constitutional limit. The issues are expected to sell via negotiated sale on Nov. 4 and 5, 2009. In addition, Fitch affirms its 'AAA' rating on $1.1 billion of outstanding unlimited tax GO bonds and $396.9 million of limited tax GO bonds. The Rating Outlook is Stable.

The 'AAA' reflects the city's broad and diverse economy, solid financial profile, and conservative fiscal and debt policies, which ensure a manageable debt load. Key credit strengths include strong financial management and the currently untapped ability to levy unlimited ad valorem property taxes for debt service, as the city uses income taxes and user fees to pay its obligations. While the city's general fund performance has weakened, largely due to unprecedented declines in income tax revenues amid growing expenditures, the city maintains sizeable reserves outside the general fund in its special tax fund. Also, the city recently obtained voter approval for an increase in the income tax rate; this, combined with spending reductions, is expected to re-establish structural balance in fiscal 2010 and provide for increased general fund balances. Downward rating pressure could occur if financial balances within the general fund do not improve, or if combined reserves in special tax and other funds deteriorate.

Columbus is anchored by a stable economic base largely composed of professional and business services, healthcare, education, and government. As the state capital and home to Ohio State University, the city's economy has remained relatively resilient during the national recession. The August 2009 unemployment rate of 8.8% remains below the state rate of 10.5% and the nation's 9.6%, and further gains in healthcare and educational sector employment are expected in 2010. Real property values have increased modestly and the city's population has expanded 1% annually since 2000.

Nonetheless, the city has experienced the financial impact of the national recession, as income tax revenues contracted in both 2008 and projected 2009. In fiscal 2008, the city's general fund produced a $43 million shortfall, about 7% of the budget. Largely due to income tax contraction of 1.3% and growth in labor costs, the shortfall brought the general fund balance to a low 8% of spending. However, augmenting financial flexibility, the city retains substantial reserves in its special income tax fund as part of its policy of segregating 25% of income tax revenues outside general operating accounts. When combined with other sources, total fund balance increased to over 25%, although the city does not intend to access the reserves for operating relief.

Fiscal 2009 is also expected to produce a sizeable shortfall, as income tax revenues contracted nearly 5.5% below budgeted expectations. In fall 2009, the city sought and won voter approval for a 0.5% increase in the income tax rate, bringing the total rate to 2.5%. In addition, the city has begun to implement a 10-year fiscal reform plan that includes budget cuts in fiscal 2009 and beyond to restore structural balance to operating funds. With furlough days, overtime reductions, the elimination of new recruit classes for sworn personnel, and the voluntary deferral of wage increases by the city's fire union, the city has made more than $30 million in budget cuts for 2009. The long-term strategic plan outlines further reductions, including staff cuts; no additional programmatic spending was promised as part of the tax increase. Fiscal 2010 will continue to be challenging; nonetheless, Fitch expects the city will address its structural imbalance fully and begin to replenish general fund reserves.

The city's debt profile is favorable, with moderate overall debt and conservative debt policies, including rapid debt amortization, internal affordability metrics, and no exposure to derivative risk. Overall debt totals $2,015 per capita or 3.3% of property market values. Indicative of its conservative financial practices, about three-quarters of the city's direct debt (including revenue bonds) is repaid in 10 years. The large $2.6 billion capital improvement plan primarily addresses environmental mandates for the city's sewerage system. Although the city retains substantial authorization for additional debt, Fitch expects the tax-supported debt burden will remain moderate due to rapid retirement of debt and the use of enterprise fees to repay debt service.

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