New Issue: Moody's assigns Aaa rating with stable outlook to the City of Columbus' (OH) $398.3 million GOULT Bonds, Series 2012A and $40.9 million GOLT Bonds, Series 2012B

Global Credit Research - 28 Jun 2012

Aaa rating and stable outlook apply to $2.3 billion of outstanding GO debt

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

Moody's Rating

ISSUE		RATING
Various Purpose Unlimited Tax Bonds, Series 2012A		Aaa
Sale Amount	$398,275,000	
Expected Sale Date	07/13/12	
Rating Description	General Obligation	
Various Purpose Limited Tax Bonds, Series 2012B		Aaa
Sale Amount	$40,890,000	
Expected Sale Date	07/13/12	
Rating Description	General Obligation Limited Tax	

Moody's Outlook STA

Opinion

NEW YORK, June 28, 2012 --Moody's Investors Service has assigned a Aaa rating with stable outlook to the City of Columbus' (OH) $398.3 million Various Purpose Unlimited Tax Bonds, Series 2012A and $40.9 million Various Purpose Limited Tax Bonds, series 2012B. Concurrently, we have affirmed the Aaa rating on the city's outstanding GOULT debt. Post-sale, the city has $1.9 billion of outstanding general obligation unlimited tax debt and $436.9 million of outstanding general obligation limited tax debt. Moody's also maintains a Aa2 rating on the city's $75.9 million in Riversouth Authority lease rental appropriation bonds.

SUMMARY RATINGS RATIONALE

The Series 2012A bonds are secured by the city's general obligation unlimited tax pledge. The Series 2012B (general obligation limited tax) bonds are secured by the city's general obligation limited tax pledge, subject to the statutory 10-mill limitation, per Ohio state code. The lack of a rating distinction between the general obligation unlimited and limited tax debt reflects the state requirement that 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.

The Aaa rating and stable outlook on the City of Columbus' $2.3 billion of general obligation unlimited and limited tax debt reflects the city's large and diverse economy that benefits from stabilizing institutions; a 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.

Proceeds of both the Series 2012A and 2012B bonds will be used to fund the city's annual capital improvement program. Approximately 45% of the funded projects are for the water utility, 16% for transportation projects, 14% for the sewer utility, and 25% for other capital needs. While the bonds are backed by the city's general obligation pledges, management expects to repay debt service from utility revenues, income tax revenues designated for repayment of debt service, and other sources.

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.

-Continued progress towards restoration of 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.

- Expected reductions in state aid for fiscal 2013

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 censuses and 10.6% between the 2000 and 2010 censuses, with a current population of approximately 787,000 in the city and 1.9 million in the Columbus metro area. The city's full value is a sizeable $41 billion and the tax base has declined at an average annual rate of 2.1% over the last five years. This includes a 7.3% tax base decline following a full reappraisal of property values in 2012, which was the first major reappraisal of the tax base following the economic downturn. We note that the city does have a significant portion of its base within tax increment districts (TIF) whose values are not captured in the current valuations. Exempted real property reached $4.1 billion, or approximately one-quarter of total assessed valuation in 2009. The value of these TIF districts will be added to the full valuation as they expire.

Economic expansion and population growth trends are likely to remain moderate, 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 (Aa2 with stable outlook; 26,700 employees), the headquarters for OhioHealth (revenue bonds rated Aa2/stable outlook; 13,200 employees), and The Ohio State University (56,900 students in Columbus; 26,800 employees). Top private employers include JP Morgan Chase (senior unsecured debt rated Aa3/stable outlook; 18,000 employees) and Nationwide Insurance (insurance financial strength rated A1/stable outlook; 11,700 employees), which is headquartered in Columbus. 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 has focused on redevelopment and revitalization of its downtown in recent years. The downtown Arena District is anchored by Nationwide Arena, home to the National Hockey League's Blue Jackets, and a minor league baseball stadium, both of which were built in the late 1990s 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. Major development continues in the health care sector as well. Nationwide Children's Hospital just completed its $786 million expansion, which added 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 and add 2,000 jobs. City income levels are below those of the state with per capita and median family income at 92.2% and 88.4% of state medians, respectively. This partially reflects the significant student population, as well as a relatively low cost of living. The city's unemployment rate remains lower than the state, with an April 2012 rate of 6.5%, compared to a state rate of 7.3% and U.S. rate of 7.7% for the same time period.

CITY CONTINUES TO REPLENISH RAINY DAY FUND; FINANCES STABILIZED DUE TO INCREASED INCOME TAX RATE

We expect the city's financial operations will remain relatively stable due to continued adherence to prudent fiscal policies and practices and steady growth in the city's primary revenue. The city experienced reductions in reserves in fiscal 2007 through fiscal 2009 due primarily to declining revenue streams and a 27th pay period. Relative to many other Ohio cities, Columbus experienced a modest reduction in its income tax collections during the recession, with a 1.3% drop in fiscal 2008, or approximately $5 million. Investment earnings experienced a larger decline, dropping from $32 million in fiscal 2007 to $3.4 million at the end of fiscal 2010. In response to the revenue declines, the city successfully sought voter approval for a 0.5% income tax rate increase, which became effective October 1, 2009. With the additional income tax revenue, as well as expenditure reductions, the city was able to realize a $37.2 million operating surplus (net of transfers) in fiscal 2010 and a $25.9 million operating surplus (net of transfers) in fiscal 2011, ending fiscal 2011 with a General Fund balance of $114.8 million, or a satisfactory 15.7% of revenues. Fiscal 2010 included real growth in income tax collections, with an estimated 3% increase in collections net of the income tax rate increase. Fiscal 2011 also experienced a 3.1% increase in income taxes, which compared favorably to a 2% budgeted growth.

Based on year-to-date results for fiscal 2012, the city expects to have balanced operations in the General Fund, with a loss of approximately $12.8 million in state aid offset by a projected 4% growth in income tax receipts and other budgetary adjustments. For fiscal 2013, the city is expected to lose up to $18.5 million in state-shared revenues, and the city is setting aside $11 million in the fiscal 2012 budget in anticipation of this decline in revenues. With the operating surpluses in recent years, the city has begun to replenish its Economic Stabilization Fund (ESF). 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 (approximately $35.3 million). The fund currently has a balance of $39.6 million, with a goal of restoring it to $50 million, or 7.1% of 2011 expenditures, by 2014. Income tax receipts are the city's largest revenue source at 68.7% of 2011 General Fund revenues. The 0.5% voter approved income tax rate increase brought the total local income tax rate to 2.5%. The decision to increase the income tax rate demonstrates management's 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.

Three-quarters of the city's income tax is designated for general operations and one-quarter for capital and debt service requirements. The designated reserves are maintained in the city's Special Income Tax (SIT) Fund, which had a balance of $157.1 million at the close of fiscal 2011. Combined General, Bond Retirement and Special Income Tax Fund balances at the close of fiscal 2011 were $272.1 million, or a healthy 30% of combined revenues. While these funds create potential additional operating flexibility, 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.

CITY HAS LIMITED EXPOSURE IN PURCHASE OF NATIONWIDE ARENA BY CONVENTION FACILITIES AUTHORITY

The Franklin County Convention Facilities Authority (CFA) recently purchased Nationwide Arena, home of the Columbus Blue Jackets hockey team, from Nationwide Mutual Insurance. The CFA purchased the arena from Nationwide for $42.5 million, with the purchase price financed through a $43.3 million loan from Nationwide and $10 million loan from the Ohio Department of Development. Franklin County (Aaa/stable outlook) and the City of Columbus have each pledged 25% of casino revenues toward repayment of the loans, operational costs and capital improvements at the facility. The pledged percentage increases by 1% annually after three years until reaching a maximum contribution of 32% in 2022. The city's obligation is limited to the scheduled percentage of casino revenues, with no additional step up required. The loan from Nationwide is projected to be repaid by 2039, though the term may be shorter or longer depending on the amount of casino revenues. The state loan is repayable over ten years and $5 million of the loan can be forgiven if the Blue Jackets meet certain targets. The cost of any additional operating and capital expenditures beyond those pledged by the county and city will be shared equally by Nationwide, the Columbus Blue Jackets, and Ohio State University (OSU) up to $21 million. Any cost overrides over that amount will be covered by the CFA. The arena's total annual operating budget is approximately $12 million. The city has not provided a backstop in the case of cost overrides, though does provide a backstop for other lease revenue bonds issued by the CFA as detailed below. Given the terms of the arrangement and the protections in place to share any operating or capital expenditure shortfalls amongst all parties, we believe that the city has limited financial exposure to the arena.

CONSERVATIVELY MANAGED DEBT POSITION, SUPPORTED BY UNTAPPED LEVY AUTHORITY

The city's 3.8% direct debt burden is elevated and 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 as the city utilizes alternate revenue sources to repay debt service, rather than relying on the property tax base. Approximately, 51.6% of the city's general obligation debt is repaid with utility revenues, which are paid from around the Columbus metropolitan area as the city's water and sewer enterprises serve the metro area. Most of the city's remaining debt is repaid from income tax receipts, which are also contributed by a much broader base than the city itself as commuters from around the metro area commute into Columbus for employment.

The city has not levied a property tax levy to repay debt service since 1957. Officials have a long-standing practice of asking voters to approve a bond levy every three or four years for a projected capital plan, with the understanding that the city will be able to pay for the debt from the one-quarter of income tax receipts designated for capital. In 2012, the voter authorized debt levy, not including debt which is paid from alternate enterprise revenues, would generate $91.1 million if fully leveraged. Recognizing that the city is paying debt out of an economically sensitive revenue source, officials also impose specific coverage requirements for any debt paid from income taxes that does not have support from alternate revenues. The city determines its annual debt issuance in accordance with an internal policy that requires Special Income Tax Fund reserves to cover general obligation debt service by a certain coverage ratio defined by city officials over the city's 10-year forecast period. This coverage ratio was recently increased to1.5 times, and 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. The 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. Officials expect to approach voters again for bond authorization in November 2013.

Our calculation of the city's debt burden includes a portion of debt issued by the Franklin County Convention Facilities Authority (CFA) for which the city has provided its appropriation pledge. The CFA bonds are secured by an appropriation pledge from both Franklin County (50%) and the City of Columbus (50%), as well as a hotel/motel tax. The bonds were used to finance the Greater Columbus Convention Center in 1990 and for additional improvements to the center. 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 debt profile additionally includes lease revenue bonds issued by the Riversouth Authority and backed by the city. The bonds originally funded redevelopment of a historic building within the city's downtown for commercial use.

The city has $111.9 million of uninsured variable rate demand bonds in weekly mode, which are 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 2.9% 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. General obligation debt is repaid at an average rate with 68.3% of principal retired in the first ten years. The city has no plans to issue debt for new money projects in 2012 and expects to issue approximately $425.9 million in bonds and state loans in 2013 (71% for utilities) and $748.5 million in 2014 (85% for utilities). The city's sewer enterprise is under two consent decrees with the EPA due to its combined sewers and previous discharge concerns and a significant portion of the 2014 borrowing is to meet these consent decrees.

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)

2012 Estimated Full Valuation: $41.1 billion (Including areas in Franklin, Delaware, and Fairfield Counties)

Average annual change in full value: -2.1% from 2007-2012

2012 Estimated full value per capita: $41,086

2006-2010 Per Capita Income: 92.2% of State; 84.7% of US

2006-2010 Median Family Income: 88.4% of State; 83.7% of US

City of Columbus unemployment rate (April 2012): 6.5%

FY2011 General Fund balance: $114.8 million (15.7% of General Fund revenues)

FY2011 Combined General, Bond Retirement Fund, and Special Income Tax Fund Balance: $272.1 million (30% of combined revenues)

Debt Burden: 6.2% (Direct: 3.5%)

Amortization (10 years): 68.3%

Post-Sale G.O. Debt Outstanding (includes Limited and Unlimited tax): $2.3 billion

Post-Sale Lease Revenue Debt Outstanding: $75.9 million

RATING METHODOLOGY

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.

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