

# RatingsDirect®

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## Summary:

### Gahanna, Ohio; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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### Credit Profile

#### Gahanna GO

*Unenhanced Rating*

AA+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings affirmed its 'AA+' long-term rating and underlying rating on Gahanna, Ohio's series 2007 general obligation (GO) limited-tax various purpose bonds. The outlook is stable.

A pledge of the city's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure its bonds. We believe the city possesses the financial stability and flexibility necessary to sustain ratings on the limited-tax bonds equal to an unlimited-tax pledge.

The 'AA+' ratings reflect our assessment of the following factors for the city, specifically its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 76% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 13.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 11.8% of expenditures and net direct debt that is 53.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 79.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The city offers an 83.3% income tax credit for income taxes paid by residents to another municipality, up to a tax rate of 1.5%. In 2012, a class action lawsuit was filed against the city, alleging that the city's income tax form had been improperly calculating the credit. The lawsuit covers 2009 to 2014 collection years. In 2014, a Franklin County judge ruled in favor of the plaintiffs. The city has appealed this decision, and we understand that lawsuit will go to trial in early 2017. In the meantime, the city has amended the language in its income tax code to make it clearer. If the city's appeals are unsuccessful, current estimates provided by officials indicate that the city could owe at least \$11 million in tax refunds. While the dollar amount is substantial, we believe risk to the city's credit quality is mitigated primarily by the city's very strong reserve position and very strong financial management. However, should the amount of the potential refunds increase significantly, or should legal costs escalate, we believe that there could be negative pressure on the ratings.

### **Strong economy**

We consider Gahanna's economy strong. The city, with an estimated population of 34,811, is located in Franklin County in the Columbus, OH MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 123% of the national level and per capita market value of \$76,160. Overall, the city's market value grew by 1.6% over the past year to \$2.7 billion in 2016. The county unemployment rate was 4.1% in 2015.

Gahanna is in northeastern Franklin County, approximately 10 miles from downtown Columbus. Because of its location along Interstate 270, the city's residents benefit from easy access to employment throughout the area. Based on the continued economic development within the city and throughout the Columbus metro area, we anticipate that the city's market value and incomes will remain strong.

### **Very strong management**

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management uses historical data and various outside sources to form revenue and expenditure assumptions and provides quarterly reports to the council on budget-to-actuals and investment holdings and earnings. The city maintains both a five-year financial plan and a five-year capital plan, and both are updated annually and shared with the council. The capital plan identifies both cost estimates and funding sources for projects. The county has a formal investment policy that mirrors state guidelines, a comprehensive debt policy that sets limits on debt issuance, and a formal reserve policy equal to 25% of general fund revenue.

### **Strong budgetary performance**

Gahanna's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 9.8% of expenditures, and balanced results across all governmental funds of negative 0.2% in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term. General fund operating results of the city have been stable over the last three years, with a result of 10.5% in 2014 and a result of 8.5% in 2013.

Income taxes represent the city's largest revenue source, at 70% of general fund revenue. Income tax growth and conservative budgeting have contributed to strong budgetary performance in recent years. Over the past three years, the city has budgeted for general fund deficits on a cash basis of accounting, but due to conservative budgeting and differences in accounting, GAAP results have reflected operating surpluses. As such, the city budgeted for a deficit in fiscal 2016, but was expecting to end the year with a surplus. Final results are not available. The fiscal 2017 budget also reflects a deficit, but due to the aforementioned conservative budgeting practices, and excluding large one-time expenditures, we expect the city will end with an operating surplus. Excluding one-time expenditures, we expect total governmental fund performance to remain at least balanced in fiscal 2016 and fiscal 2017 as well. Regardless of the outcome of the income tax lawsuit, we expect the city's budgetary performance to remain strong, as we understand that future income tax collections will not be affected by the outcome. In response to the lawsuit, the city has clarified the language in the income tax code to avoid questions of interpretation.

### **Very strong budgetary flexibility**

Gahanna's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 76% of operating expenditures, or \$17.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

In our view, the city's very high available fund balance significantly mitigates potential liabilities from the income tax lawsuit. Depending on the outcome of the lawsuit, the city could potentially owe taxpayers refunds of up to and possibly exceeding \$11 million. In addition to a \$6.5 million emergency reserve that is included within the available general fund balance, the city has also set aside \$4.1 million for this potential liability. Subtracting this from the city's available fund balance would leave roughly \$7.3 million, or 23% of expenditures. If the potential refunds were to exceed \$11 million, we still believe the city would have sufficient budgetary flexibility to manage this without significant impact to its overall credit quality. The city's history of operating surpluses and very strong financial management also supports this expectation.

### **Very strong liquidity**

In our opinion, Gahanna's liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 13.2x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The city had \$53.1 million in available cash and investments at the end of 2015. We believe that the city has strong access to external liquidity, as it has issued various types debt in recent years, which demonstrates access to capital markets. The city's investments are in government bonds, certificates of deposit, money market funds, and the STAR Ohio investment pool, none of which we deem to be risky investments. We do not view the pending income tax lawsuit as a significant risk to liquidity, given that the city carries sufficient cash to cover the estimated liability and has strong access to external liquidity should the amount of the potential tax refunds increase.

### **Very strong debt and contingent liability profile**

In our view, Gahanna's debt and contingent liability profile is very strong. Total governmental fund debt service is 11.8% of total governmental fund expenditures, and net direct debt is 53.4% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 79.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The city has no plans to issue additional debt at this time, and has no alternative financings such as variable or privately placed debt.

Gahanna's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

Eligible city employees participate in either the Ohio Public Employees Retirement System (OPERS) or the Ohio Police and Fire (OP&F) Pension Fund, both multiemployer, cost-sharing state retirement systems. OPEBs are provided through the state plans. We do not consider the liabilities a significant budget pressure, as we do not expect these costs to materially increase over the next two years. The state recently enacted changes to the pension systems that are intended to stabilize employer contributions and increase funding. Employees participate in a choice of a defined

benefit, defined contribution, or combined plan. Per Government Accounting Standards Board Statement No. 68 standards, which the city implemented for its financial statements for the fiscal year ended Dec. 31, 2015, employers with benefits administered through cost-sharing, multi-employer pension plans such as OPERS and OP&F must report their proportionate share of the net pension liability. The city's proportions of the net OPERS and OP&F liabilities as of 2014 valuation were \$5.9 million and \$10.1 million, respectively. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 86.5% for OPERS and 72.2% for OP&F.

### **Strong institutional framework**

The institutional framework score for Ohio cities is strong.

## **Outlook**

The stable outlook reflects our view of the city's consistent financial performance and very strong budgetary flexibility and liquidity, all of which are supported by a strong underlying economy and very strong financial management. We believe that the city's very high available fund balance would provide substantial flexibility in the event the city is required to pay income tax refunds. For this reason, we do not anticipate changing the ratings in our two-year outlook horizon. The city's participation in the broad and diverse Columbus MSA adds stability to the ratings.

### **Downside scenario**

We could lower the ratings if the city's appeal of the income tax lawsuit is unsuccessful and if actual refund amounts come in higher than currently projected, resulting in a significant deterioration of budgetary flexibility or performance.

### **Upside scenario**

We view upward potential as unlikely during the outlook horizon, given the pending lawsuit. Furthermore, upward rating potential would also be dependent on economic indicators improving to levels consistent with those of 'AAA' rated peers, which we don't view as likely in the short term.

## **Related Criteria And Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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