New Issue: Moody's assigns MIG 1 rating to Franklin County's (OH) $8 million Taxable Special Obligation Bond Anticipation Notes, Series 2013 (Stadium Facility Project)

Global Credit Research - 15 Feb 2013

Affirms Aaa rating and stable outlook on $257.2 million of outstanding GO debt

FRANKLIN (COUNTY OF) OH
Counties
OH

Moody's Rating

ISSUE	RATING
Taxable Special Obligation Bond Anticipation Notes, Series 2013 (Stadium Facility Project)	MIG 1

Sale Amount	$8,000,000
Expected Sale Date	03/04/13
Rating Description	Note: Bond Anticipation

Moody's Outlook

Opinion

NEW YORK, February 15, 2013 --Moody's Investors Service has assigned a MIG 1 rating to Franklin County's (OH) $8 million Taxable Special Obligation Bond Anticipation Notes, Series 2013 (Stadium Facility Project). Concurrently, Moody's has affirmed the Aaa rating and stable outlook on the county's outstanding general obligation debt; the Aa1 rating and stable outlook on the county's outstanding long term special obligation debt; and the Aa2 rating and stable outlook on Franklin County Convention Facilities Authority's Series 2010 lease revenue debt that is ultimately secured by the county's appropriation pledge. Franklin County has $257.2 million of total general obligation debt; $25.5 million of long term special obligation debt; and $160 million of lease revenue debt outstanding.

SUMMARY RATINGS RATIONALE

Debt service on the notes is secured by a first lien pledge of the county's non-tax General Fund revenues and the county has also pledged revenues from the Huntington Ballpark stadium. Proceeds from the current issuance will refund the county's $10 million Taxable Special Obligation Bond Anticipation Notes, Series 2012 (Stadium Facility Project), which mature on March 8, 2013. The county will also use $2 million in cash from accumulated stadium revenues to pay down principal on the Series 2012 notes. The notes were originally issued in 2007 to finance construction costs of the stadium, along with $27.5 million Taxable Special Obligation Bonds, Series 2007, which are secured by a parity pledge of nontax revenues and stadium revenues. The current offering matures on March 7, 2014 and the MIG 1 rating is based on expected market access for the take out refinancing, a history of successful marketing of notes and bonds, the ample debt service coverage provided by the county's non-tax General Fund revenues, and the credit quality reflected in the county's Aaa long term general obligation rating.

Affirmation of the Aaa rating and stable outlook on the county's general obligation debt reflects the county's sizeable tax base and stable economy anchored by significant institutional presence; well-managed finances with healthy reserves that help to mitigate the impact of budgetary pressures; and debt levels that are expected to remain manageable despite a relatively slow payout. Affirmation of the Aa1 rating and stable outlook on the county's Series 2007 long term special obligation debt (Stadium Facility Project) reflects the county's first lien pledge of its non-tax General Fund revenues for debt service, though debt service is expected to and has been paid from stadium revenues. Affirmation of the Aa2 rating and stable outlook on Franklin County Convention Facilities Authority's Series 2010 lease revenue debt reflects the security of Franklin County's appropriation pledge. The

rating is based on the county's general obligation credit characteristics, the annual risk of non-appropriation for debt service, and the non-essential nature of the financed project (construction of the Columbus Hilton Downtown Hotel).

STRENGTHS

- Strong history of market access

- Very healthy cash reserves sufficient to cover repayment of BANs as a back-up option

- Sizeable tax base and stable economy encompassing state capital and large university

- Improving sales tax trends, with estimated 6.6% increase in sales tax receipts in 2012 compared to 2011

CHALLENGES

- Exposure to enterprise risk, the county has provided security for debt issued to fund non-essential projects, including a baseball stadium, convention facility, and hotel. Exposure is offset by historically sufficient revenues from these enterprises for debt service payments

DETAILED CREDIT DISCUSSION

STRONG NON-TAX GENERAL FUND REVENUE SECURITY CHARACTERIZED BY AMPLE COVERAGE WITH SUFFICIENT DEDICATED STADIUM FUNDS; MARKET ACCESS EXPECTED FOR REFINANCING

The current notes and the outstanding special obligation bonds are secured by the county's non-tax General Fund revenues and Huntington Ballpark stadium operating revenues. Based on the stadium's fiscal 2011 audit, gross revenues generated from ticket sales, concessions, merchandise, sponsorships, and advertising provided more than 5 times maximum annual debt service on the non-tax revenue obligations. While officials expect that project revenues will continue to provide ample debt service coverage, the stadium debt is further secured by the county's non-tax General Fund revenue pledge. Debt service on the current notes and the outstanding bonds share a parity first lien on the county's non-tax General Fund revenues, which consist of all General Fund revenues other than property and sales taxes. The non-tax revenues include charges for service, licenses and permits, fines and forfeitures, investment income, and proceeds from the sale of capital assets. In fiscal 2011, the county's non-tax General Fund revenues totaled $72.5 million. Although audited financial results are not yet available, officials report that fiscal 2012 non-tax General Fund revenues equaled $62.4 million on a cash basis. Fiscal 2013 non-tax General Fund revenues are budgeted at $54.2 million. Part of the decline in non-tax revenues over the last several years is due to declines in investment income and charges for services. Non-tax revenues, not including stadium revenues, provide a substantial 14.6 times coverage of maximum annual debt service of $4.2 million. Outstanding parity debt includes $25.5 million of bonds in addition to the $8 million of the current note issuance.

The county expects to retain a portion of debt in notes that will be renewed annually to allow for flexibility in paying down debt each year. Since 2010, the county has paid down approximately $2 million of principal annually and plans to do so going forward, eventually paying of the notes in about four years. The stadium bonds mature in 2032. Based on fiscal 2013 budgeted revenues, estimated fiscal 2013 debt service coverage on all outstanding debt secured by the county's pledge of non-tax General Fund revenues is a strong 12.8 times, not including the planned $2 million reduction in outstanding note value. This coverage does not factor stadium project revenues. The non-tax revenue pledge includes an additional bonds test of 1.5 times projected annual debt service. While there is ample margin to issue additional parity debt, the county has no current plans to do so.

The pledged non-tax revenues represent 25 % of General Fund revenues and are an important component of the county's core operating revenues to support essential county services. The county's healthy General Fund reserves and liquidity mitigate the potential operating pressures posed by debt service requirements, though projections do not indicate.

LARGE TAX BASE AND RELATIVELY STABLE ECONOMY ANCHORED BY SIGNIFICANT INSTITUTIONAL PRESENCE

Located in the center of the state, Franklin County is anchored by Ohio's capital city of Columbus (general obligation rated Aaa/stable outlook). The State of Ohio (Aa1/stable) and The Ohio State University (revenue debt rated Aa1/stable) provide significant institutional stability to the economy, which has mitigated the regional impact of the recession. The State of Ohio is the region's top employer, with nearly 28,000 employees, and The Ohio State University, which has the largest student enrollment of any university in the nation (64,600 students), is the

area's second largest employer, with more than 22,000 employees. The county also benefits from significant financial services, insurance, and health care sectors. Nationwide Mutual Insurance Company (long term rated A1/stable) is headquartered in Columbus, with 11,000 employees. Port Columbus and Rickenbacker Port Authority contribute to the county's growing intermodal and logistics network. Unlike other urban communities experiencing population loss, Franklin County's population continues to grow, with the 2010 population representing an 8% increase from the 2000 census count, up to nearly 1.2 million. Resident income levels consistently exceed state and national medians, and the county's October 2012 unemployment rate of 5.5% was below those of the state and nation for the same period.

The county's total full valuation, a sizeable $74.6 billion in 2012, experienced a 6% decline in valuation between 2010 and 2011 assessment years due to the county's sexennial reappraisal, and a subsequent 0.6% decline between 2011 and 2012. These declines followed several years of stagnant valuations and was the sexennial adjustment was first major reappraisal of the tax base following the economic downturn. Ongoing development within the downtown Columbus region is expected to strengthen business and retail activity within the urban center. While development continues in and around downtown Columbus, suburban housing development has moderated. However, a solid retail base in suburban areas continues to support the county's tax base growth and economic stability.

HEALTHY FINANCIAL OPERATIONS DESPITE BUDGETED DRAWS ON RESERVES

The county's financial operations will likely remain sound, despite the continued budgeted reductions of reserve levels, due to prudent fiscal management and expected favorable budget variances consistent with actual financial results in recent years. The county has been spending General Fund reserves over the last several years for capital improvements, economic development projects, and community grants. Management's decision to expend reserves for targeted projects was partially in recognition of high accumulated reserves well above the policy to retain approximately 30% of General Fund expenditures in cash reserves. The General Fund balance declined from $283.9 million, or an ample 91% of revenues at the close of 2008, to $218.1 million, or a still healthy 76.2% of revenues at the close of 2011. This steady decline was primarily for one-time investments in capital and development projects and does not reflect structural imbalance. Reserve levels had increased substantially between 2006 and 2008 due to significant expenditure reductions and two sales tax increases that were effective October 1, 2005. A permanent 0.25% sales tax increase was dedicated to ongoing courthouse and public safety operations, and a temporary 0.25% sales tax increase was dedicated to rebuilding General Fund reserves. The temporary 0.25% sales tax increase expired on December 31, 2007.

Preliminary estimates for fiscal 2012 indicate a $13.9 million decline in cash basis reserve levels due to one-time projects, with an ending General Fund cash balance of $149.5 million, or a strong 53.8% of receipts. The county experienced a 6.6% increase in sales taxes over 2011, which compared favorably to a budgeted 1% increase. For fiscal 2013, the county's budget expects a $33 million draw on reserves (to $116.8 million) for capital projects and community partnerships. Management notes that the budgeted draw assumes full expending of appropriations, while recent budgetary performance reflects favorable expenditure budget-to-actual variances of 3% to 5% (a nominal variance of $6 million to $15 million). While the county plans to continue using reserves for cash financing of capital projects, management does not intend to reduce General Fund cash reserves below $110 million, a solid 38.4% of 2011 revenues. The county's accrual-basis General Fund reserves at the conclusion of fiscal 2011, 76.2% of revenues, exceeded the county's policy to maintain reserves at no less than 31% of operating expenditures and 28% of operating revenues on an accrual basis.

LIMITED COUNTY EXPOSURE IN RECENT PURCHASE OF NATIONWIDE ARENA BY CONVENTION FACILITIES AUTHORITY

The Franklin County Convention Facilities Authority (CFA) purchased Nationwide Arena, home of the Columbus Blue Jackets hockey team, from Nationwide Mutual Insurance in February 2012. 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 and the City of Columbus have each pledged 25% of state-shared casino revenue disbursements 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 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 county 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 county has limited financial exposure to the arena.

MANAGEABLE DEBT LEVELS; RELATIVELY SLOW PAYOUT

Despite the relatively slow amortization of Franklin County's direct debt, we expect the county's debt profile to remain affordable as future borrowing plans are relatively moderate. The overall debt burden is above average at 3.3% of full value, reflecting the significant obligations of overlapping municipalities and school districts. At 0.6% of full value, the county's direct debt burden is more moderate and approximates the debt levels of other Moody's rated counties. Payout of the county's debt is relatively slow but is adequate, with 48.1% amortized in ten years. The current offering represents the county's only outstanding short-term note, representing a modest 2% of the county's total outstanding debt. Potential future borrowing plans include issuing approximately $40 million in bonds over the next few months to fund a portion of the costs associated with the renovation of the county justice center and approximately $83 million in 2015 or 2016 for a new jail facility. All of the county's debt is fixed rate, and the county is not a party to any interest rate swap agreements.

Proceeds from the county's outstanding Series 2010 lease revenue bonds were used to finance the construction of the Columbus Hilton Downtown, which opened in October 2012. The hotel is located directly across from the Greater Columbus Convention Center. The first principal payment on the bonds is due in 2016 and interest was capitalized through 2012. The bonds are secured by an appropriation pledge from the county, as well as net operating income of the hotel and room taxes limited only to those generated by the hotel. The county's additional series of lease revenue bonds were used to finance the convention center in 1990 and for additional improvements to the center. The bonds are secured by an appropriation pledge from both Franklin County (50%) and the City of Columbus (50%), as well as hotel/motel tax. The county annually appropriates its share, though hotel/motel taxes have been sufficient to cover the bonds to date. Hotel/motel room taxes have been levied in Franklin County and the City of Columbus since 1990; the total current rate is 4.0% in the county outside the city limits and 4.9% within the City of Columbus. Hotel/motel tax collections continue to provide adequate revenues for debt service coverage.

Outlook

The stable outlook reflects our belief that the county will continue to maintain a healthy financial position. This expectation is based on the county's ability and willingness to maintain healthy reserves, as well as the relative stability of the Columbus-area economy, which should preclude significant weakening of the county's tax base.

What Could Change the Rating - DOWN (or change the outlook to negative)

* Economic pressures that lead to increased unemployment or significant reductions in valuation

* Declines in reserves that materially exceed current projections

* A relaxing of the county's strong financial management practices

* Significant increases in debt levels

KEY STATISTICS

2010 Census population: 1,163,414 (8.8% increase from 2000)

2011 Full valuation: $74.6 billion (1.4% average annual decrease since 2007)

2006-2010 Per capita income as % of State: 107%

2006-2010 Median household income as % of state: 104%

October 2012 unemployment rate: 5.5%

Fiscal 2011 General Fund balance: $218.1 million (76.2% of revenues)

Direct debt burden: 0.6%

Overall debt burden: 3.3%

Principal amortization (ten years): 48.1%

Post-sale long term general obligation debt outstanding: $257.2 million

Long term special obligation debt outstanding: $25.5 million

Lease revenue debt outstanding: $160 million

RATING METHODOLOGY

The principal methodology used for the Lease Rental rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. The principal methodology used for the General Obligation rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. The principal methodology used for the Bond Anticipation Notes rating was Bond Anticipation Notes and Other Short-Term Capital Financings published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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