STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Franklin County, Ohio; General Obligation

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Credit Profile		
Franklin Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Franklin Cnty GO (Stad Fac Proj)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services has affirmed its 'AAA' long-term rating on Franklin County, Ohio's general obligation (GO) bonds. The outlook is stable.

The rating reflects our view of the county's:

- Deep and diverse economy, anchored by the state capitol Columbus;
- Very strong general fund reserves despite consecutive deficits, and remaining revenue flexibility;
- Strong financial management practices; and
- Moderate overall net debt burden.

We have also affirmed the 'AA+' underlying rating (SPUR) on the county's series 2007 stadium facility project bonds, which are secured by a pledge of all general fund nontax revenues, including fines and forfeitures, licenses and permits, investment earnings, proceeds from sale of assets, charges for services, and other miscellaneous revenues. We rate the bonds one notch below the GO rating due to the limited nature of the security. In fiscal 2012, revenue pledged to the series 2007 bonds totaled $62.4 million. Coverage of annual debt service at $4.3 million, equaled 14.6x.

Franklin County (estimated population: 1.17 million) is approximately 543 square miles, with its economy anchored by a desirable mix of government-, service-, and manufacturing-sector jobs. The city of Columbus, the state capital, is the county seat. We consider median household and per-capita effective buying income good at 98% and 102% of respective national averages. County unemployment averaged a low 6.1% in 2012, below state and national averagesof 7.2% and 8.1%, respectively. We consider market value strong at $63,542 per capita.

County revenues have declined largely due to economic declines over the past five years; however, recent economic growth indicates revenues may stabilize. Over fiscal years 2007- 2011, general fund revenues decreased 21%, including sales tax, property tax, and investment income. Sales tax revenues decreased 26% over fiscal 2007 to fiscal 2009, due partly to economic declines but also to a reduction of the general sales tax rate of 0.25% in 2008. Sales tax revenues grew 5% between fiscal years 2009 and 2011. Management reported continued sales tax growth of 6.5% in fiscal 2012 and expects further growth of 2.75% in fiscal 2013. Property taxes have been more stable but decreased 4.5% between fiscal years 2008 and 2011. County assessed value (AV) was relatively stable in 2012 for collection 2013, decreasing just 0.7% to $26.1 billion. Investment income decreased 72.8% between fiscal years 2007 and 2011. The state reduced local government funds by $6.91 million in fiscal 2012, followed by an additional $3.73 million in 2013 for a total loss of $10.64 million. So far, the state has not announced further reductions to local government funds in fiscal years 2014-2015. The county does not rely on federal funding for operations; while it expects just under a $1 million reduction in funding due to sequestration cuts, it plans to cut back on related program spending. Sales taxes are its primary funding source, accounting for 47.96% of general fund revenues in fiscal 2011, followed by property taxes (13.69%), and intergovernmental revenues (12.98%). Franklin County maintains revenue flexibility, and could substantially increase revenues without voter approval. It has 0.75% capacity to increase the sales tax rate under its limit. The county can charge an additional $2.00 per $1,000 in property transferred in real property transfer taxes, and also has an additional 0.88 mills of property tax millage within its limit available.

Due largely to declining revenues, Franklin County has drawn on general fund reserves. Because reserves were in excess of its fund balance policy, it made a conscious decision to maintain certain services despite weakened revenue. For fiscal 2012, management reported a draw on unobligated cash balances of approximately $14.4 million, $16 million less than budgeted. Franklin County has had three audited historical consecutive draws on general fund reserves, which it attributed to mitigation of state and federal funding cuts to capital projects and discretionary community grants. On a GAAP basis, deficit drawdowns of fund balances over fiscal years 2009-2011 averaged $24 million. Most recently, the county drew on $24.97 million of general fund reserves, decreasing fund equity to $218.041, of which $199.3 million, or a very strong 64.1% of expenditures plus transfers out was unassigned.

Franklin County management projects its general fund finances on a cash basis. Management's general fund forecast shows a $16.85 million drawdown in fiscal 2013, which would reduce unrestricted cash to $102.11 million, or a very strong 34.56% of expenditures. However, its economic stabilization fund of $14.52 million would remain untouched, as well as $15.7 million in other reserves set aside for a 27th pay, risk management, and stadium and hotel funds (set aside for debt service guarantees). The forecast shows consecutive drawdowns on unrestricted general fund cash, decreasing it to $52.81 million, or a very strong 16.26% of expenditures by fiscal 2016.

Franklin County has established an advisory panel of external experts to recommend structural changes to right-size its budget. Adjustments under consideration include tax rate and fee increases and reductions in nonmajor fund subsidies. It has already made some reductions to materials and services and community partnership grants and controlled hiring. Management is committed to its fund balance policy to maintain a minimum $110 million general fund reserve balance, or 35.9% of expenditures. It reported that it has ample flexibility to adjust its budget to maintain this target.

Standard & Poor's considers Franklin County's management practices "strong" under Standard & Poor's Financial Management Assessment, indicating that practices are strong, well embedded, and likely sustainable.

We consider Franklin County's overall net debt burden, including appropriation, nontax revenue, and overlapping debt, moderate at 3.9% of market value and $2,483 per capita. Debt service carrying charges were a low 3.9% of total governmental expenditures less capital outlay in fiscal 2011. It plans to issue an additional $45 million in bonds to finance Hall of Justice renovations and will likely refinance certain obligations for interest savings in 2013.

Eligible county employees participate in either the Ohio Public Employees Retirement System (OPERS) or the State Teachers Retirement System (STRS), both multiple-employer, cost-sharing state retirement systems. Employees participate in a choice of a defined-benefit, defined-contribution, or combined plan. In fiscal 2011, the county made its full annual required contributions, which totaled $46.06 million, or 4.1% of total governmental expenditures. Other postemployment benefits, such as retiree health care, are included in total OPERS and STRS contributions.

Outlook

The stable outlook reflects our expectation that Franklin County will remain committed to its fund balance policy and will make the necessary adjustments to achieve structural balance over the two-year outlook horizon. Given its ability to raise revenues without voter approval and expenditure flexibility, we believe the county has the ability to right-size its budget. We also expect that its deep and diverse economy will continue to support the rating. Should, however, deficits continue, demonstrating structural weakness without timely budget adjustments, we could consider a downgrade.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- State And Local Government Ratings Are Not Directly Constrained By That Of The U.S. Sovereign, Aug. 8, 2011

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