MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Avon Lake's (OH) GO Bonds, Ser. 2015

Global Credit Research - 26 Feb 2015

Aa2 rating applies to $11.4M of post-sale long-term GO debt

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

Moody's Rating

ISSUE		RATING
General Obligation (Unlimited Tax) Recreational Facilities Improvement Refunding Bonds, Series 2015		Aa2
Sale Amount	$2,965,000	
Expected Sale Date	03/11/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, February 26, 2015 --Moody's Investors Service assigns a Aa2 rating to the City of Avon Lake's (OH) $3.0 million General Obligation (GOULT) Recreational Facilities Improvement Refunding Bonds, Series 2015. Concurrently, Moody's maintains the Aa2 rating on the city's outstanding GOULT and GOLT debt. Post sale, the city will have $4.0 million and 7.4 million of long-term GOULT and GOLT debt outstanding.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's large and affluent tax base located in suburban Cleveland (A1 stable); relatively healthy operations supported by liquidity outside of the General Fund; reliance on economically-sensitive income tax revenues; moderate debt burden; and exposure to unfunded liabilities of a cost-sharing retirement plan.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Expansion and diversification of the city's tax base and local economy

- Growth in General Fund balance and overall liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Significant declines in taxable values and/or weakening of the city's demographic profile

- Material declines in the city's Operating Fund (General, Debt Service and Income Tax Fund) reserve levels

STRENGTHS

- Large and affluent tax base

- Healthy liquidity in the city's Operating Fund

CHALLENGES

- Reliance on economically-sensitive income tax revenues

- Concentrated income tax base

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE, AFFLUENT TAX BASE IN CLEVELAND METRO AREA

The city's tax base will likely continue to expand over the long term given its position as a wealthy suburb of Cleveland and proximity to major transportation networks. Located approximately 20 miles west of Cleveland in Lorain County (Aa2), Avon Lake's sizable $2.3 billion tax base has averaged a modest annual decline of 0.7% over the past five years, which includes a 5.3% in 2013 when the county completed its triennial valuation update. Since then, values declined by 1% and increased by 1.3% in 2014 and 2015, respectively. Officials expect the city's valuations will stabilize in the near term as a result of modest new residential construction. The city has enjoyed steady population growth over the past couple decades, increasing by 20% and 24% in the 2000 and 2010 censuses, respectively. Prospects remain good for additional growth given the city's location just north of I-90, which runs through the Cleveland metro area. Resident income levels trend above those of the state and nation, with median family income equivalent to 164% and 156% of state and national figures, respectively, according to 2008-2012 American Community Survey estimates.

The city's employment base is dominated by Ford Motor Company (Baa3 stable), which maintains a large assembly plant along the city's border with Sheffield Lake (A2). The plant employs approximately 1,700 people and officials indicate that the plant is one of three plants nationwide that will start producing a new line of trucks, the F-450. In addition to Ford Motor Company, the city is home to the world headquarters of PolyOne, which specializes in the development of polymer products for use in a number of industrial sectors. Lorain County's unemployment rate of 6.8% in December 2014 is above both those of the state (4.7%) and nation (5.4%) for the same time period.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL OPERATIONS EXPECTED TO REMAIN STABLE; DEPENDENCE ON ECONOMICALLY SENSITIVE INCOME TAX REVENUES

The city's financial operations will likely remain stable over the near term due to rising income tax revenues and a healthy degree of overall liquidity. The city's General Fund concluded the past four fiscal years with modest deficits, decreasing General Fund GAAP-basis reserves from $3.4 million, or a healthy 26.6% of revenues, in fiscal 2009 to $3.1 million, or a sound 20.4% of revenues, in fiscal 2013. Officials attribute the draw on reserves to shortfalls in income tax revenues resulting from a sluggish economic environment and a decision not to reduce city services. On a total operating fund basis, the city concluded fiscal 2013 with an available fund balance of $6.8 million, or 44.9% of operating revenues. Operating funds include the city's General, Income Tax, and Debt Service Funds. Although audited results are not yet available for fiscal 2014, preliminary cash-basis figures indicate a $981,000 surplus across the city's operating funds. Income tax revenues have begun to recover with a 2.5% increase in fiscal 2013, followed by a 6.7% increase in fiscal 2014. Officials have budgeted for balanced operations in fiscal 2015, assuming an 2% increase in income taxes.

City operations are highly dependent on economically sensitive income tax revenues which accounted for 50% of fiscal 2013 Operating Fund revenues. The city's continuous income tax rate of 1.5% was authorized by voters in 1992. All income taxes are collected in the city's Income Tax Fund and then distributed, per ordinance, as follows: 75% to general operations, 20% to capital projects, 5% to sewer improvement. The income tax base remains concentrated with Ford and PolyOne accounting for approximately 30% of income taxes collected in fiscal 2014.

Liquidity

The city concluded fiscal 2013 with an operating net cash balance of $6.2 million, or a very healthy 41.2% of revenues.

DEBT AND PENSIONS: MODERATE DEBT PROFILE WITH LIMITED FUTURE BORROWING PLANS

The city's direct debt burden is expected to remain average given limited future borrowing plans. The city's direct debt is a modest 1.1% of full valuation. Including overlapping municipalities, the debt burden rises to a moderately high 3.5%. Principal amortization is average, with approximately 78% of principal retired within 10 years. Moving forward, the city has identified several road improvement projects. However, the city has no plans to issue new debt in the near term.

Debt Structure

All of the city's outstanding debt is fixed rate, and the city is not party to any interest rate swap agreements. The city currently has $12.3 million in GOLT Bond Anticipation Notes (BANs) outstanding that mature on July 14, 2015.

Debt-Related Derivatives

The city has no derivatives.

Pensions and OPEB

We calculate an above average pension burden for Avon Lake based on unfunded liabilities of two defined benefit cost-sharing retirement plans as well as our methodology for adjusting reported pension information. City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). Avon Lake's three year average Moody's adjusted net pension liability (ANPL) through fiscal 2013 is $70.8 million, equivalent to 3.2% of full valuation and 4.7 times fiscal 2013 operating revenue. We have allocated the liabilities of the cost-sharing plans to the city in proportion to its respective contributions to the plans. The city's fiscal 2013 contribution to all retirement plans for both pension and retiree healthcare was $2.1 million, or 14.2% of operating revenue.

Ohio statutes establish local government retirement contributions as a share of annual payroll. While the city has routinely made its full statutorily required payment to the cost-sharing plans, statutory contributions to OP&F have been set well below actuarially-based standards for a number of years, resulting in steady growth in that plan's unfunded liability. Positively, the Ohio legislature enacted reforms in 2012 for all cost-sharing plans that include reductions in cost-of-living adjustments (COLAs) and phased-in growth in employee contributions. While savings associated with COLA changes are incorporated in the city's fiscal 2013 ANPL, we anticipate that growing employee contributions will gradually improve the status of the statewide retirement plans.

MANAGEMENT AND GOVERNANCE

Ohio cities have an institutional framework score of 'A' or moderate. Economically sensitive income tax collections typically account for more than half of operating revenue, but cities have the ability to increase tax rates with voter approval. Expenditures tend to be predictable and many cities maintain the flexibility to cut costs as needed.

Management utilizes a conservative budgeting approach and has recently obtained significant voter support for the renewal of a 1.5 mill current expense levy and a 2.0 mill paramedic services levy, respectively.

KEY STATISTICS

- Estimated full valuation: $2.3 billion

- Estimated full valuation per capita: $99,700

- Estimated median family income as % of the US: 155.7%

- Fiscal 2013 available operating fund balance / operating revenue: 45.5%

- 5-year change in available operating fund balance / operating revenue: -17.0%

- Fiscal 2013 operating net cash / operating revenue: 41.2%

- 5-year change in operating net cash / operating revenue: -1.6%

- Institutional framework score: A

- 5-year average operating revenue / operating expenditures: 0.96x

- Net direct debt burden (inclusive of authorized debt): 1.1% of full valuation; 1.6 times operating revenue

- 3-year average Moody's adjusted net pension liability: 3.2% of full valuation; 4.7 times operating revenue

OBLIGOR PROFILE

The City of Avon Lake encompasses 12 square miles and is located in Lorain County in north central Ohio on the shores of Lake Erie, approximately 20 miles west of the City of Cleveland.

LEGAL SECURITY

The bonds are secured by the city's General Obligation Unlimited Tax pledge which is backed by the full faith, credit and resources of the city, and will be payable from ad valorem taxes, which may be levied without limitation as to rate or amount.

USE OF PROCEEDS

Proceeds from the Series 2015 bonds will be used to refund the city's Series 2009 bonds for net present value savings. The Series 2009 bonds were originally issued to pay costs associated with the renovation and improvement of the city's municipal swimming pool.

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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