

# RatingsDirect®

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## Summary:

# Wadsworth, Ohio; Miscellaneous Tax

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### Credit Profile

US\$17.84 mil spl oblig subord lien income tax rev rfdg bnds (Comnty Ctr Proj) ser 2016 due 12/01/2030

*Long Term Rating* AA+/Stable New

Wadsworth income tax

*Long Term Rating* AA+/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Wadsworth, Ohio's series 2016 subordinate lien income tax revenue refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on series 2010 income tax revenue bonds for interest cost savings. The outlook is stable.

A pledge of the city's continuous 1.3% general income tax levied throughout the city secures the bonds. The city levies an income tax rate of 1.00% (statutory) for the purposes of general municipal operations, maintenance, new equipment and capital improvements. In 1981, voters approved an incremental increase in the income tax rate of 0.3% (voted) for the same purposes as the statutory rate. The combined levy of 1.3% represents the pledged income tax revenues for the bonds.

The income taxes do not have any unique factors or risks as it represents a municipal income tax paid to the city from both corporate income and employee wages and salaries. It is our understanding that proceeds for the bonds will be used to refinance the series 2010 income tax-supported capital improvement bonds for interest cost savings only. The refunding of the series 2010 bonds will result in an economic defeasance of the bonds but not a legal defeasance of the bonds.

The long-term rating on Wadsworth reflects our assessment of the following factors:

- Strong legal provisions, including a 2.5x maximum annual debt service (MADS) additional bonds test (ABT);
- Remote possibility that the city will bond down to its ABT, owing to its reliance on income tax revenues for general operations;
- Strong MADS coverage of 6.6x;
- Stable income tax revenue stream; and
- Diverse tax base, coupled with good incomes and below-average unemployment.

The city has covenanted that it will appropriate and pay from the pledged income tax receipts into the income tax bond fund amounts that are sufficient to pay debt charges due and payable on all outstanding bonds and any additional bonds on or before each date on which debt charges are due.

The bonds are covered by an ABT that requires the income tax revenues received during the fiscal year immediately preceding the issuance of any additional bonds is at least equal to 250% of MADS on all parity obligations and the

additional bonds. The city previously had a closed lien on the series 2010 bonds and now has now applied an additional bonds test to give it more flexibility. Wadsworth relies on income tax revenues to fund operations (typically more than 55% of total general fund revenues) and we feel the issuer is unlikely to bond down to the ABT level given this reliance on excess revenues for essential operations. The city has no plans to issue any income tax-backed bonds for at least the next three years and no definitive plans to issue during the next five years but has given itself the flexibility to issue if needed.

Pledged income tax revenues (voters approved a 0.10% increase in 2011 to the income tax rate to 1.4%, but the 0.10% is not part of the pledged revenues, this amount is specifically earmarked for street improvements) have been stable since 2006 (\$6.3 million) with only a slight drop in 2009 (beginning of the recession) through 2014 (\$7.60 million). Pledged income tax revenues fell 0.5% in fiscal 2015 to \$7.56 million, which management attributed to loss of employees due to cuts made by a large hospital in 2014, which slightly affected the 2015 collections. Management projects a 4% income tax growth for 2016. We believe this is slightly above our internal projections, as our Local Government Credit Conditions Forecasts projects a moderate but below average growth in gross domestic product of 1.92% in 2016 for the East North Central region. (See "U.S. State and Local Government Credit Conditions Outlook: Smoother Sailing—Maybe—After a Turbulent Start," published on April 19, 2016). Officials believe the recent expansion in its economy will contribute to the projected increase in income tax revenues for 2016.

Audited 2014 income tax revenues of \$7.6 million provide MADS coverage of 6.6x (\$1.1 million in 2037), while unaudited 2015 income tax revenues provide the same MADS coverage. This coverage level is slightly higher with other similarly 'AA+' rated income tax bonds. Historically the coverage on the city's income tax bond transaction has been above 5x coverage and since the city relies on this revenue stream for its operations, we are comfortable that there is no debt reserve requirement. (See "Special Tax Bonds: U.S. Recovery Underpins the Sector's Stability," published on Sept. 14, 2015).

Wadsworth serves a 2015 estimated population of 22,731 in northeastern Ohio, approximately 35 miles south of Cleveland and 15 miles west of Akron and is in Medina County. The city is part of the Cleveland-Elyria-Mentor metropolitan statistical area, which we consider a broad and diverse economy. Largest local employers include Wadsworth City School District, American Hospitality Group Inc., Leatherman Nursing Center, Wadsworth-Rittman Hospital and residents also benefit from access to larger and more diverse employment centers in nearby Cleveland. Management has reported that no employer accounts for more than 5% of income tax revenues. The county's 2015 median household and per capita effective buying incomes were 87% and 91%, respectively, of the national level. The average unemployment rate for the county in 2015 was 4%, which was a decline from the 5% average in 2014. County per capita retail income was 158% of the U.S. level in 2014.

## Outlook

The stable outlook reflects our expectation that Wadsworth will not bond down to its ABT because of its reliance on income tax revenues for its operations as well as our belief that income tax revenues will continue to generate very strong debt service coverage and as such we do not expect the rating to change during the two-year outlook period. The rating is further strengthened by the broad and diverse economic base.

### **Upside scenario**

If income tax revenues increase and the coverage level grows to a level we feel is commensurate with peers at a higher rating level or if the city strengthens its additional bonds test requirement, the rating could be raised.

### **Downside scenario**

If income tax revenues decrease and the coverage level falls to a level we feel is commensurate with peers at a lower rating level or if the city weakens its additional bonds test requirement, the rating could be lowered.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Special Tax Bonds, June 13, 2007
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### **Related Research**

Special Tax Bonds: U.S. Recovery Underpins The Sector's Stability, Sept. 14, 2015

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