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Ratings

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Summary:

New Albany, Ohio; General Obligation

Primary Credit Analyst:
Benjamin D Gallovic, Chicago + 1 (312) 233 7070; benjamin.gallovic@spglobal.com

Secondary Contact:
Errol R Arne, New York (1) 212-438-2379; errol.arne@spglobal.com

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Summary:

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Credit Profile		
US$17.25 mil GO (ltd tax) cap facs bnds ser 2018 due 12/01/2037		
Long Term Rating	AAA/Stable	New
New Albany GO (ltd tax) various purp rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating to New Albany, Ohio's series 2018 limited-tax general obligation (GO) capital facilities bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's existing GO debt. The outlook is stable.

The city's full faith and credit and an agreement to levy ad valorem property taxes, within the 10-mill limitation, secure the bonds. We rate the limited-tax GO debt at the same level as our view of the city's general creditworthiness, given that ad valorem taxes are collected from the city's entire tax base and because of a lack of limitations on the fungibility of resources available for debt service.

The bond proceeds will finance improvements to the city's Rose Run Park. Although the bonds are legally secured only by the city's GO pledge, officials plan to use a combination of tax-increment financing and income tax revenue to repay the debt.

New Albany's GO bonds are eligible to be rated above the sovereign, because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention.

The rating reflects our assessment of the city's:

- Very 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 128% of operating expenditures;
- Very strong liquidity, with total government available cash at 113.4% of total governmental fund expenditures and

13.1x governmental debt service, and access to external liquidity that we consider strong;

- Adequate debt and contingent liability profile, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 77.6% of total governmental fund revenue, as well as rapid amortization, with 65.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider New Albany's economy very strong. The city, with an estimated population of 9,680, is located in Franklin and Licking counties in the Columbus, Ohio MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 198% of the national level and per capita market value of $267,058. Overall, the city's assessed value grew by 5.5% over the past year to $650.5 million in 2018. Estimated market value totaled $2.6 billion. The weight-averaged unemployment rate of the counties was 4.0% in 2017.

The City of New Albany is an affluent suburb located in the northeast corner of Franklin County approximately 20 miles from downtown Columbus. Because of its location along U.S. Highway 62, which provides direct access to downtown Columbus, the city's residents have easy access to employment throughout the area. The city is a master planned community with a strong commitment to controlling growth and development in accordance with guidelines and objectives set in its master plan.

In addition to a strong residential base, the city has also developed a large commercial and industrial base within the New Albany International Business Park, with a workforce of approximately 15,000 employees. In our view, this provides a robust income tax base for the city. The largest employers include Abercrombie & Fitch (corporate headquarters, 2,500 employees), Discover Financial Services (2,265), Axium Plastics (manufacturing, 650), AEP (electric utility, 636), and I-Qor (technology services, 623). The top 10 employers account for about 60% of the city's total workforce. Although we view this as concentrated, management reports that major employers are stable, and we note that the employment base continues to expand and diversify. Recent developments include the construction of a $750 million Facebook Data Center, and a recent announcement that Aetna will be adding 350 new jobs in the city.

New Albany continues to invest in infrastructure and use economic development tools to spur construction, which we believe should contribute to market value growth. The city has both tax increment districts and community reinvestment areas, so we adjusted current market values to include values from these districts.

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.

We revised our assessment to strong from good, because the city has resumed its five-year capital improvement plan (CIP) and long-term operating projections. The CIP is updated annually and identifies funding sources and cost estimates for projects. The city performs three years of financial projections for all funds, which are also updated annually. Management uses historical trend analysis for budget assumptions. The council receives a monthly report with budget-to-actuals and investment earnings and holdings, and the budget can be amended if necessary. The city adheres to formal investment, debt, and reserve policies. The debt policy is more restrictive than state guidelines and the reserve policy states that the city will maintain a minimum general fund balance between 30% and 35% of expenditures.

Very strong budgetary performance

New Albany's budgetary performance is very strong, in our opinion. The city had operating surpluses of 31% of expenditures in the general fund and of 33.6% across all governmental funds in fiscal 2017.

For fiscal 2017, we are sourcing financial results from the city's draft audit, which is reported on a generally accepted accounting principles (GAAP) basis.

The city levies a 2% income tax on salaries and wages earned by workers employed in the city and on business profits. In 2017, income tax revenue accounted for 85% of general fund revenue and 52% of total governmental fund revenue. From 2013-2017, on a GAAP basis, the city's total income tax collections increased 48.8%, which has contributed to its very strong budgetary performance, in our opinion. In 2017, income tax revenue increased 9.4% overall.

Although the amended 2018 budget calls for a use of reserves in the general fund, this is a reflection of the city's policy to make transfers to capital and reserve funds while maintaining a general fund balance of 65% of operating expenditures. From an operational standpoint, the city's general fund budget is balanced. Income tax collections are currently tracking about $2.6 million higher than in 2017. Although we generally view income taxes as a more volatile revenue source than property taxes, we believe New Albany's growth trends and stable employment base mitigate some of this risk. If income tax revenue were to significantly decline, we believe that management would make budget adjustments, as necessary, to maintain at least strong budgetary performance.

Very strong budgetary flexibility

New Albany's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 128% of operating expenditures, or $20.5 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.

The city's 2018 budget calls for a $5.5 million use of general fund reserves given the transfer to capital funds, but general fund reserves will remain over 65% of operating expenditures. Management has no plans to spend down its general fund balance below its 65% target and therefore we anticipate that it will remain very strong over the next two years. The city also holds significant reserves in various capital funds. While we do not view this as available to support the general fund, it does reduce the potential that the city would further draw down the general fund balance for capital projects.

New Albany's income tax rate cannot be increased without voter approval. The city also offers a 100% income tax credit to residents who work in other municipalities. The city currently allocates 85% of income tax revenue to the general fund, with 12% going to capital improvements and 3% to park improvements. This allocation can be changed by council vote.

Very strong liquidity

In our opinion, New Albany's liquidity is very strong, with total government available cash at 113.4% of total governmental fund expenditures and 13.1x governmental debt service in 2017. The city has strong access to external liquidity if necessary, in our view.

We have adjusted cash to exclude restricted cash, but we believe the city's liquidity remains very strong. It has issued various types of debt through the capital markets in the past 20 years, and we believe that this demonstrates access to external liquidity if necessary. The majority of the city's investments are in federal agency securities and certificates of deposit, which we don't consider risky. In addition, management confirms the city has no contingent liquidity risks from liabilities or financial instruments with payment provisions that change upon certain events.

The city's series 2016 GO bonds were privately placed with a bank, but bond documents do not contain any permissive events of default or acceleration clauses, so we don't view the transaction as a contingent liquidity risk.

Adequate debt and contingent liability profile

In our view, New Albany's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 77.6% of total governmental fund revenue. Approximately 65.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city has no formal plans to issue additional debt over the next two years.

New Albany's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 2.0% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

Eligible city employees participate in either the Ohio Public Employees Retirement System (OPERS) or the Ohio Police and Fire Pension Fund (OP&F), both multiemployer, cost-sharing state retirement systems. Employees participate in a choice of defined benefit, defined contribution, or combined plans. OPEBs are provided through the state plans.

In accordance with Government Accounting Standards Board (GASB) Statement No. 68 standards, employers with benefits administered through cost-sharing multiemployer pension plans like 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 2017 were $6 million and $4.5 million, respectively. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 77.3% for OPERS and 68.4% for OP&F.

In our opinion, the funded ratios for the two plans are inflated, because of what we consider optimistic actuarial assumptions, such as above-average discount rates. We note that the underfunded pensions could likely lead to an increase in contributions if not adequately addressed by the state. In this scenario, we believe New Albany is well positioned to manage any increases without significant budget stress given the city's very strong financial position and the relatively small percentage of contributions in its budget.

Strong institutional framework

The institutional framework score for Ohio cities is strong.

Outlook

The stable outlook reflects our anticipation that the rating will not change in the next two years, as we believe New

Albany will maintain very strong liquidity and very high reserves in line with its reserve target of 65% of operating expenditures. We also anticipate the city will continue to benefit from strong management conditions by maintaining its financial management practices and pursuing economic development.

We believe that the very strong reserves and strong management mitigate the city's reliance on income taxes, which we view as a more volatile revenue source. The city's participation in the broad and diverse Columbus MSA lends further stability to the rating. In our opinion, the rating could come under pressure should a material reduction in income tax revenue weaken the city's budgetary performance and flexibility.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.