



Moody's Investors Service

Rating Update: MOODY'S UPGRADES CITY OF MEDINA'S (OH) \$18.5 MILLION OF GENERAL OBLIGATION DEBT TO Aa2 FROM Aa3

Global Credit Research - 14 Oct 2009

Municipality

OH

Opinion

NEW YORK, Oct 14, 2009 -- Moody's Investors Service has upgraded the City of Medina's (OH) \$18.5 million of general obligation debt to Aa2 from Aa3. The upgrade affects \$290,000 of general obligation unlimited tax debt and \$18.3 million of general obligation limited tax debt. Although the general obligation limited tax pledge is subject to the 10 mill limitation, the lack of rating distinction between the unlimited and limited tax bonds reflects the city's healthy financial position with above average financial flexibility as well as the strength of the limited tax pledge which requires the city to exhaust its available General Fund revenues to pay debt service should the city's allocated property tax millage be insufficient. The Aa2 rating and upgrade reflects the city's strong financial operations characterized by robust reserve levels and prudent fiscal management, largely mature tax base in the Cleveland-Akron region with slightly above average socioeconomic indicators, and favorable debt profile with no future borrowing expected.

STRONG FINANCIAL OPERATIONS SUPPORTED BY ROBUST RESERVES

Moody's believes the city's financial position will remain strong due to the presence of ample reserves and a track record of prudent fiscal management. In November 2003, voters approved a 0.75% income tax increase that has led to a trend of strong operating results. In FY2008, the city posted its fourth consecutive operating surplus with a \$1.7 million increase in reserves bringing the year end GAAP basis General Fund balance to \$8.99 million, or an ample 109% of revenues. Despite seeing revenue loss in FY2009 as the city's 1.25% income tax collections are tracking 4% below year to date 2008 levels, management has made budgetary adjustments and does not expect to utilize reserves in FY2009. Additionally, management has conservatively projected that income tax revenues will not again reach 2008 levels until FY2011. Though the city anticipates a slow recovery for its main revenue source (income tax revenues accounted for 31% of FY2008 General Fund revenues), management reports no intention of the use of reserves to balance the FY2010 budget. Favorably, the city is currently in the process of approving a formal fund balance policy which will call for minimum unencumbered cash reserves of at least 25% in the city's General, Parks and Recreation, Police Special and Fire Special Funds. The policy will also set strict guidelines on how excess reserves can be used. Moody's notes that the city currently maintains ample balances in the other funds identified by the proposed policy and that management conducts a formal five-year forward looking financial plan each year.

RELATIVELY LARGE TAX BASE IN THE CLEVELAND-AKRON METRO REGION NEARS MATURITY

Moody's believes the city's economy will remain stable given its proximity to Cleveland (general obligation debt rated A2) and Akron (general obligation debt rated A2), and the lack of concentration within Medina's local economy. Well-situated in the outer suburban ring of the Cleveland metropolitan area within Medina County (general obligation debt rated Aa2), the city's \$1.8 billion tax base has seen modest growth in recent years, averaging a 0.8% annual growth rate. While the State of Ohio's phase-out of personal tangible property is responsible for depressing growth rates, the city has also seen relatively modest new construction in recent years. Approximately 10% of the city's land mass remains available for development with less than 100 acres of residentially zoned land remaining for new construction. The city's local economy is diverse and stable, with the local school district and a Cleveland Clinic (revenue debt rated Aa2/negative outlook) operated hospital accounting for the two largest income tax contributors. Additionally, the Medina County unemployment rate (8.0% in August 2009) is well below state and national norms. Moody's notes that the city is reliant on the Akron and Cleveland regional economies which continue to experience challenges as many residents commute to jobs outside of the city. Wealth levels are somewhat above the state average, with per capita and median family income at 103.4% and 114.8% of state levels, respectively.

FAVORABLE DEBT PROFILE

Moody's expects the city's debt profile will remain strong given low overall and direct debt burdens of 2.7% and 0.5%, respectively, net of self-supporting enterprise system general obligation debt. The city's general obligation debt is retired rapidly, with 72% of principal repaid within 10 years. Per city ordinance a share of the city's income tax revenues are directed to capital outlay enabling the city to fund much of its capital plan through a pay-as-you-go basis. Management reports no certain plans for additional borrowing at this time.

KEY STATISTICS

Population (2007 estimate): 26,206 (4% increase from 2000)

2009 estimated full value: \$1.8 billion

Estimated full value per capita: \$69,541

Per capita income (as % of state): 103.4%

Median family income (as % of state): 114.8%

Debt burden (direct): 2.7% (0.5%)

Principal amortization (ten years): 72%

Fiscal 2008 General Fund balance: \$8.99 million (109% of General Fund revenues)

Rated debt outstanding: \$18.5 million

The principal methodology used in rating the City of Medina, Ohio was Moody's Local Government General Obligation and Related Ratings, published in December 2008 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action with respect to the City of Medina, Ohio was in February 2009 when the city's Aa3 general obligation rating was affirmed.

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