



Moody's Investors Service

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO CITY OF OBERLIN'S (OH) \$1.2 MILLION GOLT BOND ANTICIPATION NOTES, SERIES 2009

Global Credit Research - 09 Sep 2009

CITY OF OBERLIN HAS \$9.6 MILLION OF TOTAL RATED DEBT, INCLUDING CURRENT OFFERING

Municipality
OH

Moody's Rating

ISSUE	RATING
Various Purpose Bond Anticipation Notes, Series 2009	MIG 1
Sale Amount \$1,200,000	
Expected Sale Date 09/15/09	
Rating Description Bond Anticipation Notes (GOLT)	

Opinion

NEW YORK, Sep 9, 2009 -- Moody's Investors Service has assigned a MIG 1 rating to the City of Oberlin's (OH) \$1.2 million Various Purpose (General Limited Tax) Bond Anticipation Notes, Series 2009. The notes are ultimately secured by the city's general obligation limited tax pledge and will finance a number of capital projects including the construction of new streets, a public park area, sidewalks and utility infrastructure around a new mixed use development at East College Street and South Pleasant Street. Concurrently, Moody's has affirmed the Aa3 rating on the city's \$4.3 million of outstanding general obligation limited tax debt. The MIG 1 rating reflects Moody's expectation of future market access, the city's ample liquidity which provides contingency in the event of failed market access and the strong credit characteristics inherent in the Aa3 long-term rating. The affirmation of the Aa3 rating is based on the city's extremely healthy financial operations characterized by ample reserves and the flexibility to augment revenues should the need arise, small tax base that benefits from the institutional presence of an elite university and average debt profile with manageable future borrowing expected.

EXPECTED MARKET ACCESS; AVAILABLE LIQUIDITY PROVIDES STRONG CONTINGENCY

Moody's expects the city to gain market access due to its high-quality long-term Aa3 rating. The notes are entirely new money and represent the city's second issue of bond anticipation notes (the city's other outstanding note offering will mature in May 2010). The notes will mature on September 24, 2010 and the city expects to retire the notes with cash on hand and/or additional debt issuance. Additionally, Moody's views the city's ability to retire the notes at maturity with available cash as a strong contingency plan should the need arise.

HEALTHY FINANCIAL OPERATIONS SUPPORTED BY AMPLE RESERVES AND SUBSTANTIAL FLEXIBILITY

Moody's expects the city's financial operations to remain healthy due to the presence of ample reserves, prudent fiscal management and the flexibility to generate significant additional operating revenues in the result of unforeseen budgetary pressures. In FY07, the city recorded a \$1.6 million operating surplus, increasing reserves to \$8.9 million or an ample 105% of General Fund revenues. In FY2008, the city posted another surplus, increasing GAAP basis reserves by \$670,000 to \$9.6 million or 119% of revenues. While the city's adopted FY09 budget estimates the usage of \$1.67 million of reserves to balance the budget, officials expect to finish the year without drawing on fund equity. Historical positive budget to actual variances provide evidence of the city's conservative budgeting practices: the original FY08 budget estimated a \$1.7 million draw on reserves and the city has experienced positive year end variances annually since FY02. Though the city does not have a formal fund balance policy, officials report no expectation of drawing down reserves in the foreseeable future.

Typical of Ohio cities, income tax receipts are the city's largest revenue source, comprising approximately

41% of FY08 General Fund revenues. While income tax revenues are economically sensitive, the city does benefit from the relative stability of its largest two sources of withholding taxes, Oberlin College and the Federal Aviation Administration (FAA) which accounted for 58% of FY08 income tax receipts. Additionally, year to date 2009 income tax collections are tracking 4% ahead of 2008 receipts providing evidence of the stability of Oberlin's local economy. Beyond maintaining extremely healthy reserves, the city has the flexibility to generate an additional \$1.35 million in General Fund revenue by shifting a 0.5% income tax currently used to fund capital projects, an additional \$550,000 from a 0.2% income tax currently used for capital, and an additional \$250,000 by eliminating an income tax credit to residents who work outside the city. Both actions can be taken by city council without a vote of residents. Providing additional credit strength, voters have approved 35 consecutive levy requests (renewals and replacements included) since 1990 offering considerable comfort that voters would approve revenue enhancement measures if required.

The significant presence of the college results in a large portion of tax-exempt property, reducing the city's capacity to leverage its tax base. Favorably, the city's relationship with Oberlin College has been amicable, with the college providing occasional funding for municipal purchases including a \$75,000 payment to help with costs related to providing design alternatives, for a fire station, in order to pursue LEED certification.

SMALL TAX BASE BENEFITS FROM STABILITY OF COLLEGE AND FAA AIR TRAFFIC CONTROL CENTER

Moody's anticipates that the city's modestly sized \$363 million tax base will continue to benefit from the economic stability provided by Oberlin College, a highly selective liberal arts institution, and the presence of one of the FAA's 22 national air route traffic control centers. As previously mentioned, the college's tax exempt property results in reduced taxable and full valuation, which, if factored in, would increase the city's limited tax base somewhat. The college is the city's largest employer with approximately 1,000 employees and the FAA is the second largest employer with nearly 700 employees, providing a measure of employment and economic stability. The air traffic center is reportedly the 4th busiest center and management states that there are no current concerns of consolidation or downsizing. Oberlin College (rated Aa2/stable) has an enrollment of approximately 2,900 students and is seeing applications increase annually. The college is undergoing several building projects, including the construction of a new jazz conservatory and the planning of a new "green" arts district. Construction on the campus is off-setting some of the downturn in home building.

The city is approximately 24 miles west of Cleveland (GO rated A2 with stable outlook) and has available land and annexation opportunities such that build-out is not projected for approximately 40 years. While residential activity was strong over the past 5 years as suburban growth from Cleveland pushed into the city, permitting has slowed considerably in line with national and regional trends. Foreclosures spiked in 2007, but management reports they have stabilized with approximately 40 to 50 properties entering the foreclosure process each month. While the Lorain County (GO rated Aa3) unemployment rate has increased in recent months and exceeds state and national rates (7.9% in December 2008), Moody's notes that the county includes a wide area beyond Oberlin and Oberlin's local unemployment rate is likely far more moderate. Though the Cleveland regional economy continues to struggle with a contracting employment base which pre-dated the current national economic downturn, Oberlin is somewhat buffered from those challenges due to its lack of significant manufacturing employment and the stabilizing concentration of higher education and federal jobs. Despite being a college town with a student populace that accounts for approximately 35% of the city's estimated 2007 population, resident income levels are at or above state averages with per capita and median family income at 98.6% and 119% of the state, respectively.

DEBT LEVELS ARE AVERAGE; NO FUTURE BORROWING EXPECTED

Moody's believes the city's debt burden will remain manageable due to a currently low debt burden and limited plans for future borrowing. Both overall and direct debt levels are average at 2.8% and 2.7%, respectively. Principal retirement is below average at 45% in ten years. Management reports no plans for additional borrowing outside of retiring maturing bond anticipation notes in 2010. The majority of other capital needs are expected to be met through pay-go financing as the city uses both the revenues from the 0.5% income tax and enterprise revenues for anticipated projects.

KEY STATISTICS:

2007 estimated population: 8,330 (1.6% growth from 2000)

Estimated 2009 full valuation: \$363 million

Estimated full value per capita: \$43,550

Per capita income as % of state: 98.6%

Median family income as % of state: 118.6%

FY08 General Fund balance: \$9.6 million (119% of General Fund revenues)

Debt burden: 2.8% (2.7% direct)

Principal retirement (10 years): 45%

Post-sale rated debt outstanding: \$9.6 million

The principal methodology used in rating the current issue was "Bond Anticipation Notes and Other Short-Term Capital Financings," which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Index of Special Reports - U.S. Public Finance. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Credit Policy & Methodologies directory.

The last rating action was on April 16, 2009 when the Aa3 rating for the City of Oberlin, OH was affirmed.

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