

RatingsDirect®

Summary:

Sylvania Township, Ohio; General Obligation

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Summary:

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Credit Profile

US\$6.6 mil GO (unltd tax) various imp rfdg bnds ser 2016 due 12/01/2030

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Sylvania Township, Ohio's series 2016 limited-tax general obligation (GO) various-purpose improvement refunding bonds. At the same time, Standard & Poor's affirmed its 'AA+' issuer credit rating (ICR) on the township and its 'AA+' long-term rating on Sylvania's existing GO debt. The outlook is stable.

A pledge of the township's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure the limited-tax bonds. We believe the township possesses the financial stability necessary to sustain ratings on the limited-tax bonds equal to an unlimited-tax pledge.

Officials will use series 2016 bond proceeds to advance refund the series 2010 GO bonds for interest cost savings.

The 'AA+' GO rating reflects our assessment of the following factors for the township, specifically its:

- 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;
- Adequate budgetary performance, with a slight operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2014 at 85% of operating expenditures;
- Very strong liquidity, with total government available cash at 129.9% of total governmental fund expenditures and 32.2x governmental debt service, as well as access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.0% of expenditures and net direct debt at 35.6% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Sylvania's economy strong. The primarily residential township, with an estimated population of 48,116, is about 10 miles northwest of downtown Toledo on the Michigan state line in Lucas County in the Toledo MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 114% of the national level and per capita market value of \$72,859. Overall, market value grew by 1.1% over the past year to \$3.5 billion in 2015. The county unemployment rate was 6.3% in 2014.

The township fully envelops the city of Sylvania and is larger in both geographic size and population. The township's duties include providing fire service to the entire township and police and road services to only the unincorporated

portion. Given its location, residents have access to employment throughout the MSA. Management reports that new residential and commercial development is underway and we anticipate that this will contribute to further increases in market value.

Very strong management

We view the township'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.

The township uses two-to-three years of historical data to formulate revenue and expenditure assumptions on a line-item basis, and budget assumptions are conservative, in our opinion. In each of the past three years, actual results have been better than budget. Budget-to-actual results are provided in a monthly report to the township board.

Typically, the township amends the budget three-to-four times a year.

Management maintains five-year projections for its operating funds, which it updates annually and shares with the board. The township also has a five-year capital plan for its fire fund, but other capital needs are planned for on a more informal basis.

The township has its own investment policy, and reports holdings and earnings to the board on a monthly basis. It adheres to a debt policy, which references state limitations, in addition to several quantitative parameters, including a minimum savings percentage for refundings, and an amortization threshold. Although the policy does not reference swap management, the township has no variable-rate debt. Lastly, the township has a formal fund balance policy, which calls for maintaining a minimum of four months of expenditures in the general fund and three months in each of the public works, police, and fire funds. The policy is based on cash flow needs, and the township is currently in compliance with the policy.

Adequate budgetary performance

Sylvania's budgetary performance is adequate, in our opinion. The township had slight deficit operating results in the general fund of 1.2% of expenditures, but a surplus result across all governmental funds of 2.0% in fiscal 2014.

Results for 2014 are unaudited. For purposes of our calculations, we have combined the township's general, police, and fire funds because we consider all of these core operating funds. By practice, the township historically builds up reserves over several years, and then spends them down, resulting in deficit operating results. For fiscal 2015 (ended Dec. 31), it had originally budgeted for a 0.6% deficit across its operating funds. According to management, the actual result was a slightly larger deficit, because the township made a transfer at the end of the year to purchase a fire truck. The township is budgeting for a larger deficit in 2016, although this is largely a result of another larger transfer out of the fire fund for capital purposes. Property taxes are the largest revenue source, accounting for about 75% of operating fund revenue. Given the township's stable tax base and management's conservative budget assumptions, we anticipate budgetary performance will remain at least adequate.

Very strong budgetary flexibility

Sylvania's budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2014 of 85% of operating expenditures, or \$14.3 million. We expect the available cash reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total cash

reserve has remained at a consistent level overall, totaling 89% of expenditures in 2013 and 83% in 2012. Weakening budgetary flexibility, in our view, is Sylvania's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

Expenditures include recurring transfers out, most of which are for debt service and routine capital purposes. Available reserves include \$8 million in the general fund, \$4.5 million in the police fund, and \$1.6 million in the fire fund. The township is budgeting to use reserves over the next two years, but based on projections, we anticipate that the total available cash balance will remain above 65% of expenditures.

Very strong liquidity

In our opinion, Sylvania's liquidity is very strong, with total government available cash at 129.9% of total governmental fund expenditures and 32.2x governmental debt service in 2014. In our view, the township has strong access to external liquidity if necessary.

The township had \$25.9 million in available cash and equivalents at the end of 2014. We believe it has strong access to external liquidity because it has issued GO debt in the past decade, demonstrating access to the capital markets. We anticipate that liquidity will remain very strong over the next two years. Management has confirmed that the township has no contingent liquidity risks from financial instruments with payment provisions that change on certain events, and we do not view the township's investment practices as risky. The majority of its investments are in certificates of deposit.

Strong debt and contingent liability profile

In our view, Sylvania's debt and contingent liability profile is strong. Total governmental fund debt service is 4.0% of total governmental fund expenditures, and net direct debt is 35.6% of total governmental fund revenue.

The township has no plans to issue additional debt over the next several years.

Sylvania's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 10.5% of total governmental fund expenditures in 2014. Of that amount, 9.6% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The township made its full annual required pension contribution in 2014.

Eligible township employees participate in either the Ohio Public Employees Retirement System or the Ohio Police and Fire Pension Fund, 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. Although pension and OPEB costs are above 10% of expenditures, we do not consider the liabilities a significant budget pressure as we do not expect these costs to materially increase over the next two years. The state recently enacted changes to the pension systems that are intended to stabilize employer contributions and increase funding levels. However, if the township's contributions were to increase significantly beyond 10%, we believe this could pressure its budget.

Strong institutional framework

The institutional framework score for Ohio townships and villages is strong.

Outlook

The stable outlook reflects our assessment of the township's very strong budgetary flexibility and liquidity, which we do not anticipate will change given its strong management policies and practices. We do not anticipate changing the rating within the two-year outlook period, as we anticipate that the township will continue to achieve at least adequate budgetary performance, maintain very strong reserves in compliance with its formal policy, and effectively address any expenditure pressures that arise. In our opinion, the township's strong debt profile, which we do not expect to change given its lack of debt plans and its participation in the Toledo MSA, both provide additional rating support.

Upside scenario

If the economy factor score improves to a level we consider strong, which could result if incomes and market value per capita improve, we could raise the rating.

Downside scenario

Although unlikely within the outlook horizon, if the township's budgetary performance weakens for a prolonged period of time, leading to significant deterioration in budgetary flexibility or liquidity, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Ohio Local Governments

Ratings Detail (As Of January 15, 2016)		
Sylvania Twp ICR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Sylvania Twp ICR		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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