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Ratings

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Summary:

Prairie Township, Ohio; General Obligation

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Credit Profile		
US$8.57 mil GO (ltd tax) recre ctr rfdg bnds ser 2016 due 12/01/2038		
Long Term Rating	AA/Stable	New
Prairie Twp (Franklin Cnty) GO (ltd tax) recreation ctr bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Prairie Township, Ohio's series 2016 limited-tax general obligation (GO) recreation center refunding bonds. We also affirmed our 'AA' long-term rating on the township's existing GO bonds. The outlook is stable.

The township's full faith, credit, and resources and an agreement to levy ad valorem property taxes within the state's 10-mill limitation secure the 2016 bonds. Given the township's significant financial flexibility, represented by very strong reserves, additional levy flexibility, and balanced operations, we believe it possesses the financial stability necessary to sustain identical ratings on its unlimited-tax and limited-tax GO bonds. Therefore, we do not distinguish between the township's limited-tax and unlimited-tax pledges. The township will use bond proceeds to refinance a portion of its series 2013 bonds for level interest cost savings. The 2013 bond proceeds were used to construct a new community recreation center.

The ratings reflect our assessment of the following factors for the township:

- Adequate economy, with projected per capita effective buying income (EBI) at 90.3% and market value per capita of $45,036, though the latter benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but break-even operating results at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with a high available cash reserve in fiscal 2015 of 101% of operating expenditures, and the flexibility to raise additional revenue despite statewide tax caps;
- Very strong liquidity, with total government available cash at 85.8% of total governmental fund expenditures and 13.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 106.3% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Prairie's economy adequate. The township, with an estimated population of 17,444, is located in Franklin County in the Columbus MSA, which we consider to be broad and diverse. The township has a projected per capita

EBI of 90.3% of the national level and per capita market value of $45,036. Overall, the township's market value fell by 1.3% to $785.6 million in 2016. The county unemployment rate was 4.1% in 2015.

Prairie Township is 13 miles west of downtown Columbus in Franklin County and overlaps a portion of the city. It is Franklin County's most populous township and serves an unincorporated 18.8-square-mile area. Residents have access to diverse jobs throughout the Columbus area, and the township has a strong health care presence. The township's assessed valuation (AV) has decreased 6.1% since 2012, which officials attribute partly to the multi-year demolition of a blighted 17-unit apartment complex. We understand that the township has a significant amount of land available for development, which could boost market values in the future.

Strong management

We view the township's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include bimonthly reporting of budget-to-actual results and quarterly investment reporting to the township board. The township maintains a comprehensive five-year general fund forecast and a five-year capital plan for park, fire, and emergency medical services projects. Both plans are updated at least annually and shared with the board. The capital plan identifies cost estimates, and the projects will be funded out of the township's budget. The township has adopted an investment policy that mirrors state guidelines. The township has no debt policy beyond following state guidelines. Township officials have an agreed-upon goal to maintain $5 million in general fund reserves, although drawdowns for one-time capital expenses below this level are acceptable. Five million dollars equates to 71% of combined general and fire fund expenditures in 2015.

Adequate budgetary performance

Prairie's budgetary performance is adequate in our opinion. The township had slight deficit operating results in the general fund of 1.3% of expenditures, but a balanced result across all governmental funds of negative 0.2% in fiscal 2015.

As part of our analysis, we added the township's fire levy fund to the general fund given that it is one of the township's core operating funds; thus, "general fund" in our report refers to the combined operating funds.

The township is on a biannual audit cycle, with 2014 being the most recently audited fiscal year. The township reported a surplus in the general fund in 2014 and a deficit across total governmental funds as a result of construction of the recreation center, which was financed with bond proceeds. The township's operating performance has generally been balanced over the past three years after adjustment for large one-time capital-related costs. Results for 2015, which we are using as the base year, are reported on an unaudited, modified cash basis of accounting. According to officials, the general fund deficit in fiscal 2015 represented the completion of the recreation center as well as construction of other sports facilities.

The township is supplementing recreation center operations in its first few years of operations as it builds a customer base. Management reports that the recreation center is about 65% self-supporting and expects the percentage to increase to 80% next year. The township's 2016 general fund budget reflects a small deficit of 2.2%, and projections for

2017 depict a 1.5% surplus. Both budgets account for transfers to the recreation center. Given the short amount of time that the recreation center has been open, and that the center has not yet demonstrated that it can fully support itself, we see some risk that budgetary performance could come under pressure. However, if the center demonstrates consistently balanced operations with minimal or no support from the general fund, our view of the township's budgetary performance could improve.

Property taxes remain a primary funding source, accounting for about 41% of total governmental revenue in 2015, with the majority of property tax revenue representing voted fire operating levies. Given that a large portion of voted property tax levies in Ohio are based on revenue rather than on a rate that fluctuates with AV, the township must seek voter approval for new levies because rising costs outpace property tax revenue growth. The township plans to go to voters for a new fire levy sometime between 2018 and 2020.

The township's second-largest revenue source is shared income tax revenue from joint economic development districts (JEDDs) and zones (JEDZs). The township formed a JEDD agreement with Columbus in 2010 and a JEDZ agreement with the Village of Obetz in 2011. Under these agreements, Columbus and Obetz levy income taxes on the district and zone, respectively, and share a portion of income tax revenue with the township. Approximately half of this revenue must be used to provide services to the JEDD and JEDZ, but remaining revenue can be used for general purposes. JEDD and JEDZ revenue has been increasing in recent years, partly as a result of a 0.5% increase in Obetz Village's income tax rate in 2014 and also as a result of economic recovery and development.

We anticipate that budgetary performance will remain at least adequate given the positive revenue trends and relatively stable expenditure environment.

Very strong budgetary flexibility

Prairie's budgetary flexibility is very strong, in our view, with a high available cash reserve in fiscal 2015 of 101% of operating expenditures, or $7.1 million. We expect the available cash reserve to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. In addition, the township has the flexibility to raise additional revenue despite statewide tax caps, which we view as a positive credit factor. Negatively affecting budgetary flexibility, in our view, is Prairie's use of cash accounting, which reduces clarity about the amount of funds that are truly available.

Available reserves at the end of fiscal 2015 consisted of $4.9 million in the general fund and $2.2 million in the fire fund. Management reports that the township has no plans to significantly spend down reserves in the foreseeable future, as it plans to maintain general fund reserves close to its informal target of $5 million. The township has the flexibility to raise its general fund levy by an additional 1.6 mills without voter approval, which would generate about $440,000 in additional revenue. We anticipate that budgetary flexibility will remain very strong over the next two years.

Very strong liquidity

In our opinion, Prairie's liquidity is very strong, with total government available cash at 85.8% of total governmental fund expenditures and 13.7x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

The township had $9.1 million in internal liquidity at the end of 2015. We believe the township has strong access to external liquidity because it has issued various types of debt in the past decade. 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 aggressive. The majority of its investments are in money market mutual funds, certificates of deposits, and federal agency securities.

Adequate debt and contingent liability profile

In our view, Prairie's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.3% of total governmental fund expenditures, and net direct debt is 106.3% of total governmental fund revenue.

We understand that the township has no plans to issue significant debt in the next few years. Principal payments on the township's GO bonds ramp up slowly through the life of the bonds, which will result in increasing carrying charges. Given the slower amortization of the township's debt, increasing carrying charges could negatively affect our view of the township's debt profile. The township has no alternative financings such as privately placed or bank-purchased debt obligations.

Prairie's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 6.7% of total governmental fund expenditures in 2014. 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 multi-employer, 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. 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.

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, with reserves of more than 75% of expenditures, and very strong liquidity. 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 reserves close to its target of $5 million, and effectively address any budget pressures that arise given the township's strong financial policies and practices.

Upside scenario

We could raise the rating if economic indicators significantly improve to levels more comparable with those of higher-rated peers and the township demonstrates an ability to maintain balanced operations with minimal general fund support of the township's recreation center.

Downside scenario

If the township's budgetary performance weakens for a prolonged period, leading to significant deterioration in budgetary flexibility or liquidity, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 Update Of Institutional Framework For U.S. Local Governments

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.