

RatingsDirect®

Summary:

Indian Hill Village, Ohio; General Obligation

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Indian Hill Vill GO

Long Term Rating

AAA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AAA' long-term rating on Indian Hill Village, Ohio's limited tax general obligation (GO) bonds. The outlook is stable.

A pledge of the city's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure the notes and the bonds. Despite that the city is at the legal tax limit, we believe it possesses the financial stability necessary to sustain ratings on its limited-tax pledge equal to an unlimited-tax pledge.

Indian Hill Village'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 city's GO pledge is the sole source of security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the city's operations. 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 city's financial flexibility is demonstrated by the very high fund general balance as a percentage of expenditures, as well as very strong liquidity.

The 'AAA' long-term GO rating reflects our assessment of the following factors for the city, specifically its:

- Very strong economy, with 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 127% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash at 1.7x total governmental fund expenditures and 29.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 4.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 77.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Indian Hill's economy very strong. The city, with an estimated population of 5,513, is located in Hamilton County in the Cincinnati MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 252% of the national level, which we view as extremely high and a positive credit factor, and per capita market value of \$439,931. Overall, the city's market value was stable over the past year at \$2.4 billion in 2015. The county unemployment rate was 5.3% in 2014.

Indian Hill Village is an affluent bedroom community located 10 miles northeast of Cincinnati. With commercial properties restricted to such entities as churches and schools, the local tax base is almost 100% residential. We anticipate that the tax base will remain stable during the next several years.

Strong management

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

The city uses five years of historical data to formulate revenue and expenditure assumptions for the upcoming year's budget, and budget assumptions are conservative, in our opinion. Budget-to-actual results are provided in a monthly report to the council, and the budget can be amended as needed. Management maintains a four-year financial plan and a 10-year capital plan, both of which are updated annually. The city has a formal investment policy, and the council receives a monthly report on investment holdings and earnings. The city lacks a debt management policy but adheres to state guidelines. The city's fund balance policy is embedded in its charter, and the city manages its operations to keep an ending general fund balance of 20% of expenditures.

Very strong budgetary performance

Indian Hill's budgetary performance is very strong in our opinion. The city had operating surpluses of 9.3% of expenditures in the general fund and of 11.7% across all governmental funds in fiscal 2014.

The city derives most of its revenue from municipal income taxes (87% of general fund revenue in 2014). The city levies a 0.575% income tax on residents' Ohio adjusted gross income and does not offer a credit for residents who pay income tax to the municipality in which they work. The city can increase the income tax to 1% without voters' approval. Historically, the city has increased and decreased the income tax rate depending on the financial situation and need.

In response to the state's repeal of the estate tax, the city increased its income tax rate to 0.6% from 0.4% in 2013, which contributed to large surpluses in fiscal years 2013 and 2014. As a result of a strengthened reserve position and improved economic climate, the city reduced the rate to 0.575% in fiscal 2015. Even with this reduction, we anticipate budgetary performance will remain at least strong in 2015 and 2016.

Very strong budgetary flexibility

Indian Hill's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 127% of operating expenditures, or \$14.7 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. In addition, the city has the flexibility to

raise additional revenue despite statewide tax caps, which we view as a positive credit factor.

Management estimates on a cash basis that revenue from the income tax, if the full 1% rate is levied, would generate approximately \$8.15 million in additional revenue (64% of general fund revenue in 2014). Management reports that the city could spend as much as \$2 million in available reserves over the next two years and the total available fund balance would still remain well above 75% of expenditures.

Very strong liquidity

In our opinion, Indian Hill's liquidity is very strong, with total government available cash at 1.7x total governmental fund expenditures and 29.6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city had \$21.2 million in available cash and equivalents at the end of 2014. We believe the city 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 city has no contingent liquidity risks from financial instruments with payment provisions that change on certain events, and we do not view the city's investment practices as risky.

Very strong debt and contingent liability profile

In our view, Indian Hill's debt and contingent liability profile is very strong. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 4.7% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, and approximately 77.7% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Approximately \$2.8 million of the city's GO-backed debt is self-supporting with revenue from the city's water funds, and therefore is not included in the city's net debt. The city has no additional debt plans, so we anticipate its debt profile will remain very strong.

Indian Hill's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 7.5% of total governmental fund expenditures in 2014, with 6.7% representing required contributions to pension obligations and 0.7% representing OPEB payments. The city made its full annual required pension contribution in 2014.

Eligible city 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. We do not view the village's pension and OPEB obligations as a negative credit factor because we don't anticipate that they will cause budgetary pressure during the next several years.

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 two-year outlook horizon, as we anticipate the city will maintain very strong reserves at or above 75% of expenditures. We believe the city will maintain at least strong budgetary performance given its extremely strong incomes in combination with its ability to generate additional income tax revenue without voter approval. The city's participation in the Cincinnati MSA and lack of additional debt plans also support the outlook.

Downside scenario

We could lower the rating if the city's reserves and income levels were to significantly deteriorate. However, we view this as unlikely given the high reserve position, stable economy, and strong financial management.

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
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- 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

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