

CREDIT OPINION

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 Rate this Research

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North Ridgeville (City of), OH

Update to credit analysis

Summary

The [City of North Ridgeville, OH](#) (Aa1) demonstrates a strong credit profile highlighted by its healthy financial condition and solid economic fundamentals. The city's main revenue stream, income taxes, have weathered economic impacts of the coronavirus pandemic well, reaching historic highs in fiscal 2021. The city's local economy benefits from its inclusion within the broader [Cleveland](#) (Aa1 stable) metropolitan region, and its ongoing population growth should contribute to additional income tax gains going forward. Our credit view incorporates the city's moderate combined leverage of debt and unfunded post-retirement benefit liabilities and related annual fixed costs.

On March 9, 2022 Moody's assigned a Aa1 rating to the city's \$12.5 million General Obligation (Unlimited Tax) Police Station Bonds, Series 2022.

Credit strengths

- » Solid economic and demographic fundamentals
- » Strong operating fund balance and liquidity

Credit challenges

- » Full value per capita and resident incomes trail the majority of similarly rated peers
- » Above average pension burden

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Material expansion of the city's property tax and income tax base
- » Sustained maintenance of strong operating fund balance and liquidity
- » Moderation of the city's overall leverage, particularly its above average pension burden

Factors that could lead to a downgrade

- » Considerable contraction of the city's property tax or income tax base, or weakening of the city's demographic profile
- » Material declines to available operating fund balance or liquidity

» Notable increases in the city's debt and/or retiree benefit burden

Key indicators

Exhibit 1

North Ridgeville (City of) OH	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$2,199,947	\$2,257,906	\$2,331,518	\$2,595,259	\$2,685,616
Population	31,832	32,443	32,954	33,427	35,280
Full Value Per Capita	\$69,111	\$69,596	\$70,751	\$77,640	\$76,123
Median Family Income (% of US Median)	118.4%	113.5%	113.7%	114.5%	114.5%
Finances					
Operating Revenue (\$000)	\$21,553	\$22,100	\$21,923	\$24,509	\$27,866
Fund Balance (\$000)	\$9,096	\$9,506	\$11,079	\$9,800	\$14,705
Cash Balance (\$000)	\$8,026	\$8,365	\$9,369	\$9,093	\$13,168
Fund Balance as a % of Revenues	42.2%	43.0%	50.5%	40.0%	52.8%
Cash Balance as a % of Revenues	37.2%	37.9%	42.7%	37.1%	47.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$35,213	\$35,439	\$32,611	\$30,931	\$31,392
3-Year Average of Moody's ANPL (\$000)	\$61,569	\$66,094	\$70,324	\$74,809	\$82,915
Net Direct Debt / Full Value (%)	1.6%	1.6%	1.4%	1.2%	1.2%
Net Direct Debt / Operating Revenues (x)	1.6x	1.6x	1.5x	1.3x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.8%	2.9%	3.0%	2.9%	3.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.9x	3.0x	3.2x	3.1x	3.0x

Sources: Moody's Investors Service, US Census Bureau, City of North Ridgeville's audited financial statements

Profile

The City of North Ridgeville City is located in [Lorain County](#) (Aa2) in north central [Ohio](#) (Aa1 stable), approximately 20 miles southwest of the City of Cleveland. The city operates under a mayor-council form of government, and provides comprehensive municipal services, including certain utilities, to a community of approximately 35,000 residents.

Detailed credit considerations

Economy and tax base: growing tax base located in the Cleveland metropolitan area

North Ridgeville's economy and tax base will continue to grow because of ample room for new construction and strong population trends that are fueling new development. While the city's local economy will continue to be influenced by the general health of the greater Cleveland metropolitan economy, its recovery from the heights of the coronavirus pandemic has been swift, as shown by its below average unemployment and resilient income tax base. Collections on the city's 1.0% income tax declined by just 0.3% in fiscal 2020, despite the economic slowdown caused by COVID-19. Income tax collections rebounded strongly by 11% in fiscal 2021 and are budgeted to increase by an additional 2.5% in fiscal 2022. While income tax collections tend to be economically sensitive, North Ridgeville's population growth greatly exceeds that of the typical Ohio municipality, resulting in a growing number of income taxpayers. Additionally, the city's unemployment rates are consistently average to below average, including its low rate of 3.3% as of December 2021.

Located in Lorain County, the city's \$2.8 billion property tax base is predominantly residential and serves as a bedroom community for the broader Cleveland region. In the early 2000s, a significant portion of the city remained undeveloped because of the limited reach of the city's sewer infrastructure. Following expansion of the system, the city's population and tax base experienced considerable growth.

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As a result, the tax base has grown at an average annual rate of 4.7% on average over the last five years. Despite this growth, the city's tax base remains significantly smaller than its [similarly rated peers](#).

Financial operations and reserves: strong operating fund balance and liquidity

The city's financial condition will remain healthy based on its recent income tax trends and management's conservative budgeting practices. In fiscal 2020 the city recorded a \$1.8 million general fund surplus which increased year-end available operating fund balance to \$10.9 million, equal to a solid 61.7% of general fund revenue. Across all Moody's calculated operating funds¹ the city's available fund balance stood at \$14.7 million, or 52.8% of combined revenue. While audited financial results for fiscal 2021 will not be available for several months, city officials report a \$447,000 general fund budgetary cash basis surplus for the year. A \$1.8 million general fund operating surplus is budgeted for fiscal 2022.

Income taxes are the city's largest source of revenue, accounting for roughly 40% of operating fund revenue in fiscal 2020. The city levies a 1% municipal income tax, a rate notably lower than the 2.5% median for Cleveland-area cities. The city also benefits from several voter-approved property tax levies that are dedicated for services like public safety and paramedics. Property taxes typically accounted for 8% of fiscal 2020 operating revenue. Other main revenue streams include fines, licenses and permits, and charges for services.

North Ridgeville's recent governmental operations have been enhanced by COVID-related federal stimulus. The city's positive fiscal 2020 results were largely driven by its ability to offset public safety costs with \$2.1 million of federal CARES Act funding, as well as \$775,000 in refunds from the Ohio Bureau of Workers Compensation. Additionally, the city has or is likely to receive a total of \$3.6 million in American Rescue Plan Act (ARPA) federal funding which it must allocate by the end of 2024.

Liquidity

The city's cash position is strong, providing it with ample cushion against potential budgetary pressures that could occur such as decreases to income tax collections. At the close of fiscal 2020 the city held \$13.2 million in operating fund cash, equal to 47.3% of combined operating revenue. In addition to its government operating fund liquidity, the city held \$1.8 million in cash within its internal services fund and \$31.4 million in cash across its self-supporting water and sewer utility funds. We expect the city's cash levels to remain robust given its reported fiscal 2021 operating results, along with its receipt of COVID-related stimulus funding.

Debt, pensions, and OPEB: moderate combined leverage of debt and unfunded retiree benefit liabilities

The city's debt burden will remain manageable, despite upcoming borrowing plans, though its exposure to two underfunded cost-sharing pension plans will remain a long term credit drag. The city is currently in the process of marketing \$12.5 million in general obligation unlimited tax (GOULT) bonds to finance the construction of a new police station. The bonding authority was approved by voters at its November 2, 2021 election and will benefit from a dedicated property tax levy, thus providing new revenue for the city's increased debt service costs. Once sold the city will have a total of \$18.3 million and \$19.7 million in outstanding long-term GOULT and general obligation limited tax (GOLT)-backed debt, respectively. In addition to its long-term bonded debt the city has \$2.8 million in short-term bond anticipation notes, and a small amount of capital leases, special assessment debt and state loans. Its debt burden is equal to 1.5% of full value and 1.5x operating revenue.

In addition to its debt the city carries long term liabilities associated with its participation in two underfunded cost-sharing pension and OPEB plans. As of fiscal 2020, North Ridgeville's three-year average Moody's adjusted net pension liability is \$82.9 million, while its adjusted net OPEB liability is an additional \$10.6 million. All in leverage of debt and unfunded retiree benefit liabilities, including its upcoming bonds, stands at an above average 4.9% of full value and 4.9x governmental revenue. Fixed costs, inclusive of debt service and retiree plan contributions, were \$4.2 million in fiscal 2020, equal to roughly 15% of operating revenue.

Legal security

The city's GOULT bonds, including the upcoming Series 2022 bonds, carry its full faith and credit pledge, and are payable from all legally available resources including collections from a dedicated debt service levy that is unlimited as to rate or amount.

The city's outstanding GOLT bonds are unvoted obligations backed by the city's full faith and credit as well as its pledge to levy ad valorem property taxes within the state's statutory 10-mill limit. The bonds are considered a first budget obligation payable from all legally available revenue including the city's collection of income taxes.

Debt structure

The city's long term bonds are fixed rate and structured with descending debt service through final maturity in 2041.

Debt-related derivatives

The city is not a party to any debt related derivative financial products.

Pensions and OPEB

City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). There is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans. In 2012, the 30-year target was breached and the state legislature acted by reducing benefits and increasing employee contributions. The 2012 reforms did not increase employer contributions from participating governments. Despite the flexibility to contain the plan's liabilities, North Ridgeville's exposure to the two plans will likely be a long term credit drag relative to its highly rated peers who participate in either stronger funded defined benefit pension plans or offer only defined contribution plans.

ESG considerations**Environmental**

Environmental risk is generally low for most US local governments including the City of North Ridgeville. Located in Lorain County in north central Ohio the city has a continental climate and experiences four distinct seasons. Based on data from Moody's ESG Solutions the county has medium exposure to water and heat stress relative to counties nationally, along with low exposure to flooding and wildfires. Water service within the city is provided by the city-owned water system and is purchased directly by the consumers, while wastewater collection and treatment is provided by the city's sanitary sewer system. The city purchases water in bulk from the [City of Avon Lake](#) (A1), the [City of Elyria](#) (A2) and the Rural Lorain County Water Authority and distributes it to approximately 13,500 customers. The region benefits from its access to an abundance of fresh water given the county's location along the shores of Lake Erie.

Social

Social considerations that factor into the city's credit profile include its socioeconomic and demographic characteristics and trends. Overall, the city has a solid socioeconomic profile as shown by its good per capita property wealth and slightly above average resident income profile. Full value per capita is currently estimated at \$79,000 while median family income stands at 115% of the national figure. Demographically the city's population has grown by roughly 60% from 2000 to 2020. The city currently has two major residential developments that are underway, which are expected to result in approximately 4,000 new housing units. Continuation of these positive population trends should correspond to income tax growth over time. City residents have good access to basic services, along with access to healthcare, higher education, housing, and cultural institutions throughout the greater Cleveland metropolitan region.

Governance

The city's management has demonstrated its ability to maintain healthy reserves while accommodating the service demands of a growing suburban community. The City had 197 full-time and 27 part-time employees as of the close of fiscal 2021. The city negotiates with five bargaining unions and in the city's judgment, its employee relations have been and are very good.

Ohio cities have an Institutional Framework score of "A", which is moderate. The sector's major revenue source, income tax, is subject to a 1.0% cap that can be overridden with voter approval only. Increases in property taxes also generally require voter approval, unless a city is currently levying a rate under its charter cap. Ohio has public sector unions, which can limit the ability to cut expenditures. Revenue and expenditures tend to be mostly predictable during times of economic stability, though income taxes in particular may materially fall during recessionary periods.

Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$2,772,882	Aa
Full Value Per Capita	\$78,596	Aa
Median Family Income (% of US Median)	114.5%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	52.8%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	26.9%	Aaa
Cash Balance as a % of Revenues	47.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	24.8%	Aa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.00x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.5%	Aa
Net Direct Debt / Operating Revenues (x)	1.5x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	3.0%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.0x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs](#) publication.

Source: Moody's Investors Service, US Census Bureau, City of North Ridgeville's audited financial statements

Endnotes

1 Moody's calculated operating funds include the city's general, debt service, police levy, police pension, fire levy, fire pension, paramedic levy, and street levy funds.

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