S&P Global
Ratings

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Summary:

Summit County Development Finance Authority, Ohio; State Revolving Funds/Pools

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Table Of Contents

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Credit Profile		
US$5.185 mil tax-exempt & investment fd prog dev rev bnds ser 2016D due 11/15/2041		
Long Term Rating	BBB+/Stable	New
Dev Fin Auth of Summit Cnty state revolving bnd/pool		
Long Term Rating	BBB+/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'BBB+' rating to Summit County Development Finance Authority (DFA), Ohio's series 2016D development revenue bonds. We have also affirmed our 'BBB+' rating on the authority's outstanding development revenue bonds. The outlook on the bonds is stable.

The ratings reflect our assessment of the following characteristics:

- A strong enterprise risk profile, given that the program is managed by a governmental entity but is not specifically authorized by statute; and
- An adequate financial risk profile, reflecting its loss coverage score (LCS), operating performance, and financial policies.

Primarily providing security for bonds issued under the program are the following sources in the following order:

- Loan payments received from loans under the program;
- Funds deposited into the primary reserve by a borrower causing the draw on this reserve fund to occur (typically 10% of the original loan amount);
- A program development fund, which includes interest earnings on reserve accounts and administrative fees collected by the port authority;
- Program reserve fund revenues, currently totaling about $11.6 million;
- Funds deposited into the collateral fund due primarily to proceeds from asset sales by a defaulting borrower; and
- Remaining funds in the primary reserve, with a balance of $5.2 million, incorporating existing and pending reserve deposits, drawn on a pro rata basis from the remaining borrower account balances.

Construction of a parking garage as part of the Dublin, Ohio Bridge Park development will be partially financed with the proceeds of the series 2016D bonds.

We view the program's enterprise risk profile as strong due to a combination of the low industry risk profile for municipal pools and the program's adequate market position. The authority was formed and has the ability to issue bonds under authority of the Ohio Revised Code, but the bond fund itself is not a specifically authorized program. The authority has legislative authority to finance economic development and transportation projects throughout the state,

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but currently most of these are in northeast Ohio. Because of this flexibility to finance loans throughout the state, we have not applied the adjustment for geographic concentration.

We view the program's financial risk profile as adequate based on a combination of the LCS, historical operating performance, and management policies.

We consider the program's LCS adequate, which incorporates the results of the largest obligor test.

Program cash flows are structured to have loan repayments match debt service payments, with over-collateralization available from the various reserve funds. The total balance in the primary reserve, program reserve, and program development fund will $16.8 million after all 2016 bonds are closed. Reserves are funded from a combination of cash, letters of credit (LOCs), and guaranteed investment contracts (GICs) with counterparty ratings of at least 'BBB+'. The larger LOC deposited in the program reserve fund totals $5 million through FirstMerit Bank N.A. Its initial term expires on Oct. 31, 2017, and is extendable in one-year increments after that. If FirstMerit decides not to extend the LOC, or the port can't replace it, the trustee is required to draw on the outstanding available amount.

Other investments are deposited for the benefit of bondholders in the primary reserve fund. According to the authority, the trustee is required to draw the full amount if an extension on the LOC investments is not obtained. If a draw occurs due to a default on loan repayments, the borrower--not the bond fund--is responsible for repaying the counterparty as per the LOC terms outside of the bond fund.

In the past 12 months, management reports that one borrower has needed to rely on an additional, nonparity reserve to make full loan repayments, but that the borrower is now current. The transaction related to DFA's series 2004A bonds used for a tax-increment finance project in Garfield Heights. The program has experienced loan defaults in the past, with the most recent in 2010 (related bonds were called and are no longer outstanding).

We view the financial policies and practices as ranging from strong to adequate. This assessment is based on the following factors:

- Each new transaction is reviewed by program staff and there are underwriting guidelines that stipulate the type of projects that will be financed. Generally, loans have a first security interest or first mortgage on equipment or real estate, respectively. However, management retains latitude as to which projects are ultimately approved.
- Staff meet with all the program's borrowers at least once per year, and borrower financial statements are collected by staff quarterly (or annually for those that do not file quarterly reports).
- Loan payments are typically made monthly, and the flow of funds directs the trustee to draw or replenish various funds in a specific order. Any collateral received by the trustee due to asset sales is pledged to bondholders.
- Management prioritizes projects as loan demand develops, and also has staff to develop new loan prospects.
- The trust indenture allows for funds to be invested in several investments that are in compliance with state statutes, but actual investment practices have been generally limited to cash, GICs, and LOCs. The trustee provides a monthly investment and borrower repayment report.

Based on these enterprise and financial risk profiles, the indicative rating is 'BBB+'. The final 'BBB+' rating is equal to the indicative rating because we have not made any overriding adjustments.

Program overview

The authority has managed its bond fund program since 2004. Since that time, the bond fund has originated 20 loans and issued $80 million of bonds. Incorporating the 2016D bonds and other 2016 bonds that haven't closed yet, DFA currently has 15 loans and $45 million of bonds outstanding. In addition to managing the bond fund, the authority also manages other bond and economic development funds that have issued in excess of $750 million of additional bonds outside this bond fund.

The authority has legislative authority to finance economic development and transportation projects throughout the state. All of the bond fund's projects are currently in northeast Ohio, with outstanding loans in Cuyahoga, Mahoning, Medina, Portage, Stark, and Summit counties.

Outlook

The stable outlook reflects our expectation that, consistent with historical practices, management will continue to increase the amount of pledged reserves to levels that do not produce a weaker financial risk score. Additional reserve fund deposits have represented no less than 10% of the loan balance, and management has, at its discretion, periodically added amounts to this minimum. We would expect this practice to continue.

Upside scenario

However, if the number of program defaults or delinquencies increases or our view on the other aspects of the enterprise and financial risk scores become less favorable, it could pressure the rating or outlook. Currently, we believe a change in the financial risk score is a factor that would most likely weaken the rating. Our main concerns are the effects of additional loans on the LCS generated by the CDO Evaluator, counterparty risk, and the resulting cash flow stress tests.

The total pledged reserves represent about 40% of bonds outstanding; we believe this percentage may need to be maintained at or above this level to retain the rating, depending on the repayment terms and characteristics of future loans and bonds.

Downside scenario

Currently, we do not expect the rating to improve in the next two years, absent a significant increase in pledged reserves that would be large enough to withstand a much higher loan default rate, even as new loans are added to the program.

Related Criteria And Research

Related Criteria

- USPF Criteria: U.S. Public Finance Long-Term Municipal Pools, March 19, 2012
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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.