S&P Global
Ratings

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Summary:

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

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Summary:

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

Credit Profile		
US$3.9 mil jobs & investment fd prog tax exempt dev rev bnds ser 2020A due 11/15/2050		
Long Term Rating	A-/Stable	New
US$3.135 mil jobs & investment fd prog tax exempt dev rev bnds ser 2020B due 05/15/2033		
Long Term Rating	A-/Stable	New
Summit Cnty Dev Fin Auth		
Long Term Rating	A-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A-' rating to the Summit County Development Finance Authority (DFA), Ohio's series 2020A and 2020B development revenue bonds. At the same time, S&P Global Ratings affirmed its 'A-' rating on the authority's development revenue bonds outstanding. The outlook is stable.

The stable outlook reflects our expectation that, consistent with historical practices, management will continue to increase the amount of pledged reserves to levels that support a similar 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. Additionally, as the majority eligible reserves are funded with letters of credit (LOCs) with Huntington Bank, a lowering of our rating on Huntington Bank could negatively affect our rating on the program.

Proceeds of the 2020A bond proceeds will be used to finance various public improvements at the Grandview Crossing mixed-use development in Grandview Heights, and fund a debt service reserve. The loan will be payable from tax-increment financing revenues on Phase IA of the development, including a 317-unit apartment project and 132,000 square feet of office space.

Proceeds of the 2020B bonds will be used will finance improvements to a tax-increment finance (TIF) district for an independent living facility, gas station and grocery store. TIF revenue supports loan repayments.

Credit overview

The 'A-' 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;
- A strong financial risk profile, reflecting its loss coverage score (LCS), operating performance, and financial policies; and
- An overriding adjustment to account for counterparty risk from the bond fund's letter of credit (LOC) providers.

The overriding adjustment reflects the diminished overall value of the pledged reserves. For the rating to be any higher than 'A-', based on application of our criteria, we require reductions in the value of reserve balances on investments with counterparties that are rated lower than the rated security. A LOC with Huntington Bank represents a 20% of the pledged reserve balance.

Following mobility restrictions and closure of large segments of the economy due to COVID-19 and the swift onset of recession, all of S&P Global Ratings' sector outlooks in U.S. public finance are now negative. While the authority benefits from over-collateralization and borrower diversity, we believe that rating could be negatively affected if the exceptionally low rate of loan delinquencies at or near 0% that we have typically observed becomes no longer applicable. Because of this, DFA's rating is very sensitive to operating performance score pressure, which benchmarks the number of loans that have both late payments and are non-performing. Because the program currently has only 25 loans either outstanding or pending, the ratings could be pressured downward if any of the outstanding loans have a delinquent payment. As the number of loans in the portfolio increases the rating could become less sensitive to a small number of delinquencies, but the combination of a lower number of loans and lower reserve levels in this program compared to larger bond funds results in this heightened vulnerability.

Stable Outlook

Downside scenario

If the program experiences defaults or delinquencies or our view of the other aspects of the enterprise and financial risk scores becomes 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. The main risks in our view are the effects of loan delinquencies loans without requisite increases in reserves, and counterparty risk for banks that provide the reserve fund LOCs. Additional significant leverage of the program without adding additional reserves could have downward pressure on the rating, depending on the repayment terms and characteristics of future loans and bonds.

Upside 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.

Credit Opinion

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 DFA;
- Program reserve fund revenues, totaling about $15.9 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 $8.3 million, incorporating existing and pending reserve deposits, drawn on a pro rata basis from the remaining borrower account balances.

Enterprise risk

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 DFA 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, but currently most of these are in northeast Ohio. Because the finance authority has loans in several metropolitan areas in northeast Ohio, we have not applied the adjustment for geographic concentration.

Financial risk

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

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 be $24.8 million after the 2020A and 2020B bonds and any pending bonds (if applicable) are closed. Most of the reserves are funded from a combination of cash, LOCs, and guaranteed investment contracts (GICs) with counterparty ratings of at least 'A-'. The larger LOC deposited in the program reserve fund totals $5 million through Huntington National Bank. Its initial term expired on Oct. 31, 2018; is extendable in one-year increments; and has already been extended through October 2021. If Huntington decides not to extend the LOC or the DFA can't replace it, the trustee is required to draw on the available amount outstanding. We also incorporate the existence of a $1.3 million unpledged restricted reserve that the DFA board has restricted to cure shortfalls in the bond fund.

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.

Management reports that in 2015, one borrower had to rely on an additional, nonparity reserve to make full loan repayments, but the borrower is now current. The transaction was related to the authority's series 2004A bonds used for a TIF 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). If the bond fund would start to experience delinquencies again, our view of the financial risk profile could weaken.

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 meets with all the program's borrowers at least once a 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.

Program overview

Incorporating the series 2020A,2020B and the 2019B that has yet to close, the DFA has 25 loans and $73.5 million of bonds outstanding. In addition to managing the bond fund, the authority also manages other bond and economic development funds that have issued more than $750 million of additional bonds outside this bond fund.

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

Ratings Detail (As Of June 10, 2020)		
Summit Cnty Dev Fin Auth		
Long Term Rating	A-/Stable	Affirmed
Summit Cnty Dev Fin Auth jobs & investment fd prog taxable dev rev bnds ser 2019B due 05/15/2042		
Long Term Rating	A-/Stable	Affirmed