

CREDIT OPINION

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New Issue

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Mason (City of), OH

New Issue - Moody's assigns Aaa to Mason, OH's \$9.1M Ref. Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the City of Mason's (OH) \$9.1 million Various Purpose General Obligation Refunding Bonds, Series 2016. Post-sale, the city will have \$50.7 million in rated GOLT debt.

The Aaa rating reflects the city's moderately-sized, affluent tax base which benefits from its proximity to the Cincinnati (Aa2 stable) metropolitan area; strong financial position supported by ample reserves and sound formalized fiscal policies; and elevated but manageable debt burden.

Credit Strengths

- » Affluent tax base
- » Ongoing trend of surpluses leading to ample reserves and liquidity

Credit Challenges

- » Dependence on economically sensitive income tax revenues

Rating Outlook

Outlooks are not usually assigned to local government credits with this amount of debt.

Factors that Could Lead to an Upgrade

- » N/A

Factors that Could Lead to a Downgrade

- » Material multi-year declines in fund balances and liquidity
- » Deterioration of the city's tax base and/or demographic profile

Key Indicators

Exhibit 1

Mason (City of) OH	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,912,369	\$ 2,918,449	\$ 2,941,131	\$ 2,765,289	\$ 2,821,119
Full Value Per Capita	\$ 94,828	\$ 93,699	\$ 94,059	\$ 87,929	\$ 89,239
Median Family Income (% of US Median)	160.0%	155.7%	162.3%	166.1%	166.1%
Finances					
Operating Revenue (\$000)	\$ 34,441	\$ 35,155	\$ 36,804	\$ 41,199	\$ 41,987
Fund Balance as a % of Revenues	59.6%	93.2%	102.5%	108.1%	114.2%
Cash Balance as a % of Revenues	88.1%	93.9%	104.8%	117.2%	118.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 57,885	\$ 57,035	\$ 53,750	\$ 55,419	\$ 48,853
Net Direct Debt / Operating Revenues (x)	1.7x	1.6x	1.5x	1.3x	1.2x
Net Direct Debt / Full Value (%)	2.0%	2.0%	1.8%	2.0%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.2x	1.5x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.6%	2.2%	2.6%

Source: Moody's Investors Service, Audited Financial Statements

Recent Developments

Since our previous report dated November 18, 2015, the city's tax base experienced growth of 8.8% to a 2016 full valuation of \$3.1 billion. The majority of this report remains largely unchanged.

Detailed Rating Considerations

Economy and Tax Base: Moderately-Sized, Affluent Tax Base Benefitting From Commercial Expansion

Located in Warren County (Aa1), the city's \$3.1 billion tax base is expected to grow over the near term given upcoming commercial expansions. Over the past five years, assessed values have grown at an average annual rate of 1.3%, including a healthy 8.8% increase during 2016. Procter & Gamble Company (The) (senior unsecured rated Aa3 stable), the city's largest employer, is currently undergoing a \$420 million expansion that is expected to double its local workforce. Additionally, city officials report an additional 1,000 jobs resulting from new businesses relocating to the area. As of December 2015, the city's unemployment rate of 3.7% was below both state (4.6%) and national (4.8%) levels for the same period. Full valuation per capita is estimated at \$98,359, and residential income levels remain well above average with median family income at 166.1% of the nation, according to 2009-2013 American Community Survey figures.

Financial Operations and Reserves: Well-Managed Finances Supported By Strong Reserves; Reliance On Economically Sensitive Income Tax Revenues

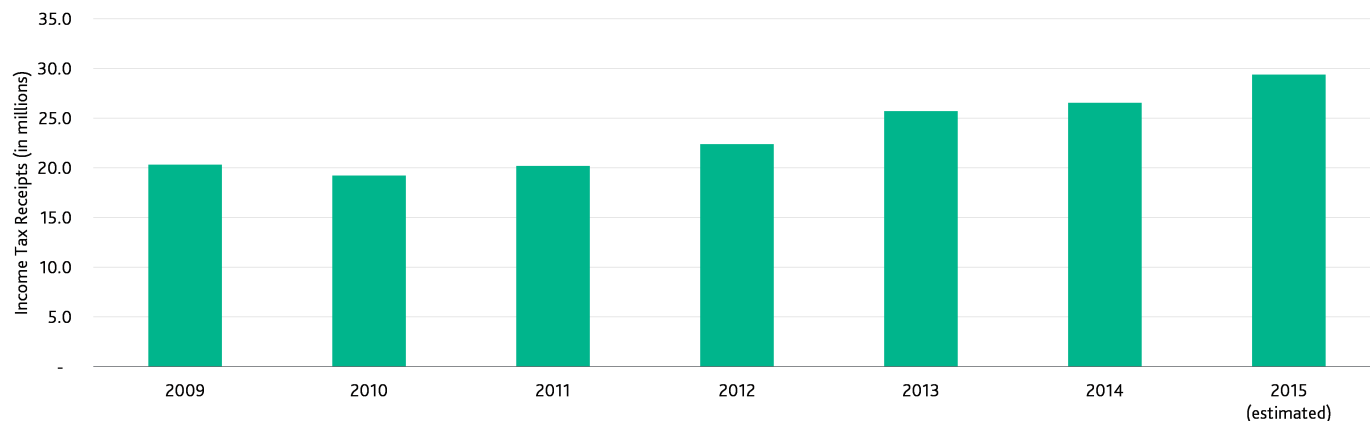
The city's financial operations are expected to remain strong due to ample financial reserves and a proactive management team. The city has posted five consecutive operating surpluses, including a fiscal 2014 surplus of \$2.5 million, resulting in a General Fund balance of \$38.5 million, or 111.4% of revenues. Available fund balance across all operating funds (General, Debt Service, Fire and Emergency Medical Fund) for fiscal 2014 was \$47.9 million, or a very strong 114.2% of total operating fund revenues.

Income tax receipts are the city's largest revenue source at 63.9% of the city's 2014 operating fund revenues. Receipts have consistently grown over the past five years. In 2013, voters approved a charter amendment allowing the city to increase the income tax rate from 1% to a maximum of 1.15%. The city current levies a 1.12% income tax, retaining the flexibility to further increase the rate if additional revenues are needed. Between fiscal 2013 and 2014 income tax receipts grew 3.3%, and preliminary year-end estimates for fiscal 2015 income tax collections are expected to exceed 10% of 2014 collections. As a result of these increased income tax receipts,

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city officials anticipates a fiscal 2015 General Fund surplus of approximately \$4.9 million. While income tax volatility can be a risk for cities, Mason has benefitted from strong collections, other than a modest decline in 2010, during the time of the national recession. Income taxpayers are also concentrated with the city's ten largest employers accounting for 36.9% of fiscal 2014 income tax receipts. The city's reliance on economically sensitive income tax revenues and taxpayer concentration is mitigated by its strong economy, historically healthy revenue collections even during period of economic stagnation and voter support for increased rates when needed. City finances are expected to remain strong given the robust reserves and proactive and a management team which has demonstrated an ability and willingness to adjust to financial pressures.

Exhibit 2

Mason, OH Income Tax Receipts

*Growth trends include a rate increase from 1% to 1.12% beginning in 2013.

Source: Audited Financial Statements, Offering Documents

LIQUIDITY

The city closed fiscal 2014 with an operating fund net cash balance of \$49.7 million, or a strong 118.5% of revenues.

Debt And Pensions: Elevated Debt Levels; Moderate Pension Liabilities

At 1.8% of full value and 1.4 times operating revenues, the city's direct debt burden is above average. In addition to its \$50.7 million in outstanding GOLT debt, the city of Mason has \$20.7 million in outstanding Certificates of Participation (COPs), \$2.1 million of outstanding revenue bonds secured by tax increment revenues, and \$2 million in bond anticipation notes (BANs).

Total fixed costs, including pension and retiree health care contributions, equaled 14% of fiscal 2014 operating revenues.

DEBT STRUCTURE

All of the city's outstanding debt is fixed rate. Post-sale, approximately 2.6% of the city's debt will consist of short-term BANs. The city plans to refinance its outstanding BANs as they mature in the same or reduced principal amounts. Refinancing risk is mitigated by the city's strong credit profile, consistent market access history, and substantial liquidity.

DEBT-RELATED DERIVATIVES

The city is not a party to any swap agreements.

PENSIONS AND OPEB

We calculate an above average pension burden for Mason based on its participation in two defined benefit cost-sharing plans. City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). The city's three-year average Moody's adjusted net pension liability (ANPL) through fiscal 2014 is \$72.9 million, equivalent to an above average 2.3% of full valuation and 1.7 times fiscal 2014 operating revenue. Our adjustments reflect the use of a market-based discount rate to value liabilities. They are not intended as a guide, but rather, to enhance the comparability of rated entities in our credit analysis. Through fiscal 2014, we allocated the liabilities of the cost-sharing plans to the city in proportion to its respective contributions to the plans. The city's fiscal 2014 contribution to the plans was \$2.3 million, or 5.5% of operating revenue.

Ohio statutes establish local government retirement contributions as a share of annual payroll. Contributions to OP&F were set well below actuarially based payments for a number of years through fiscal 2013, contributing to steady growth in the plan's reported unfunded liability. Reforms passed by the state in 2012 reduced cost-of-living adjustments (COLAs) and phased in growth in employee contributions to OP&F through fiscal 2015. The city's 2013 and 2014 ANPLs incorporate the impact of the COLA reform. If current contribution rates do not amortize plan unfunded liabilities quickly enough under a state funding threshold, further reforms may be necessary, exposing districts to potential increases in their required contribution rates.

Management and Governance: Moderate Institutional Framework; Strong Management

Ohio cities have an institutional framework score of "A," or moderate. The volatility of income taxes, typically the primary source of operating revenue, results in low revenue predictability. Cities also rely on voter-approved property taxes to support activities such as public safety and street maintenance. Cities have a moderate ability to raise revenues, as voter authorization is necessary to raise income tax rates above 1%. Cities can also increase property tax rates above their charter caps with voter authorization. Expenditures mostly consist of personnel costs, which are moderately predictable. However, these costs tend to be impacted by labor agreements, resulting in moderate expenditure reduction ability.

City management is strong, evidenced by its conservative budget assumptions and the maintenance of healthy reserve levels.

Legal Security

Debt service on the Series 2016 bonds, as well as the city's outstanding GOLT debt, is secured by the city's general obligation limited tax pledge, subject to the ten mill limitation defined in Ohio law.

Use of Proceeds

Proceeds of the bonds will be used to advance refund a portion of the city's Various Purpose Limited Tax General Obligation Bonds, Series 2008 for debt service savings.

Obligor Profile

The City of Mason encompasses 18 square miles in Warren County (Aa1), approximately 20 miles northeast of Cincinnati (Aa2 stable). It was incorporated into a city in 1971, with a 2010 US Census population of 30,712.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

Mason (City of) OH

Issue	Rating
Various Purpose General Obligation Refunding Bonds, Series 2016 (Bank Qualified)	Aaa
Rating Type	Underlying LT
Sale Amount	\$9,120,000
Expected Sale Date	04/05/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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