

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Dublin, OH's \$49.6M GOLT Bonds, Ser. 2015 and initial Aa1 to \$32M Nontax Rev. Bonds, Ser. 2015A-B

Global Credit Research - 09 Sep 2015

Aaa affirmed on outstanding GO debt

DUBLIN (CITY OF) OH
Cities (including Towns, Villages and Townships)
OH

Moody's Rating

ISSUE		RATING
General Obligation (Limited Tax) Various Purpose Bonds, Series 2015		Aaa
Sale Amount	\$49,600,000	
Expected Sale Date	09/18/15	
Rating Description	General Obligation Limited Tax	
Special Obligation Nontax Revenue Bonds, Series 2015A (Tax Exempt)		Aa1
Sale Amount	\$16,000,000	
Expected Sale Date	09/18/15	
Rating Description	Revenue: Other	
Special Obligation Nontax Revenue Bonds, Series 2015B (Federally Taxable)		Aa1
Sale Amount	\$16,000,000	
Expected Sale Date	09/18/15	
Rating Description	Revenue: Other	

Moody's Outlook NOO

NEW YORK, September 09, 2015 --Moody's Investors Service has assigned a Aaa rating to the City of Dublin's (OH) \$49.6 million General Obligation (Limited Tax) Various Purpose Bonds, Series 2015. Concurrently, Moody's has assigned an initial Aa1 rating to the city's \$16.0 million Special Obligation Nontax Revenue Bonds, Series 2015A and \$16.0 million Special Obligation Nontax Revenue Bonds, Series 2015B (Federally Taxable). Additionally, Moody's has affirmed the Aaa rating on the city's outstanding general obligation unlimited (GOULT) and limited tax (GOLT) debt. Post-sale, the city will have \$9.8 million in GOULT debt, \$105.6 million in GOLT debt, and \$32.0 million in nontax revenue bonds.

SUMMARY RATING RATIONALE

The Aaa GOULT and GOLT ratings reflect the city's large and affluent tax base in the Columbus (Aaa stable) metro area; strong financial operations supported by robust reserve levels and a proactive and conservative management team; manageable debt burden; and exposure to poorly funded statewide pension plans. The lack of rating distinction between the GOULT and GOLT debt reflects the state requirement that Ohio cities use all available revenues, including available property tax millage under the ten mill limitation statutory code, for the payment of debt service prior to any other uses.

The Aa1 rating on the nontax revenue bonds reflects satisfactory legal provisions and the expectation that ample liquidity coupled with a favorable ratio of pledged non-tax revenues to debt service will not be diluted. The Aa1 rating is notched once off the city's Aaa general obligation rating due to the more limited nature of the pledged revenues (nontax revenues).

OUTLOOK

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

WHAT COULD CHANGE THE RATING - DOWN

- Material multi-year declines in fund balances and liquidity
- Deterioration of the city's tax base and demographic profile
- Significant unexpected support for the Bridge Park project, reducing General Fund reserves and liquidity

STRENGTHS

- Affluent tax base located in the Columbus metropolitan area
- Robust General Fund reserves
- Strong and proactive management team

CHALLENGES

- Above average debt burden with slow amortization schedule
- Moderate exposure to unfunded pension liabilities

RECENT DEVELOPMENTS

Recent developments are incorporated into the detailed rating rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: AFFLUENT AND DIVERSE TAX BASE FAVORABLY LOCATED IN THE COLUMBUS METROPOLITAN AREA

The city's tax base will remain strong despite recent valuation declines due to its favorable location in the Columbus metropolitan area as well as its own diverse and growing business and income tax base. At \$5.7 billion, the city's property tax base is moderately-sized, and has experienced an annual average decline in valuation of 0.1% over the past five years. Given the relative resiliency of the tax base during the recession, valuations are expected to remain stable over the long term. The city is primarily residential (76% of assessed valuation) and serves as an attractive option for many employed in the greater Columbus area given its high service levels and affluent population. This has driven rapid growth in the city's population which has increased to 41,751 as of the 2010 census (33% increase since 2000).

Management estimates that the daytime population of the city well exceeds this figure given the city's large and healthy commercial sector which comprises 22% of assessed value. Recently, the city has benefitted from a number of businesses or institutions relocating or expanding inside the city. These include Vadata Inc., an affiliate of Amazon Web Services, as well as the expansion of Ohio University's Heritage College of Osteopathic Medicine in April 2015 that expects 40 new jobs and 400 new students. The city is proactive in its use of Economic Development Agreements (EDAs) to attract diverse businesses to the area. Instead of using tax abatements, management offers performance based income tax incentives to create and retain employment. Some of the largest employers in the city include Cardinal Health, Inc. (Baa2 stable 3,600 employees) and Express Scripts, Inc. (Baa3 positive; 2,000 employees). Unfavorably, the city reports that Nationwide Life Insurance Company (A1 stable; 3,400 employees) will begin relocating its operations from Dublin in May 2016 and the relocation will be complete in 2017. City management reports that other major employers remain stable. The unemployment rate in the city of 3.3% as of June 2015 is well below both the rates in the state (5.2%) and the nation (5.5%) over the same period. Residential income levels far exceed state medians with median family income at 215% of national medians, respectively, according to 2008-2012 American Community Survey 5-year estimates.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCIAL OPERATIONS SUPPORTED BY ROBUST RESERVES; HEAVY 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 which has demonstrated a willingness and ability to reduce expenditures to adjust to financial pressures. The city has enjoyed a long history of operating surpluses, increasing Operating Fund, inclusive of the General Fund and Debt Service Fund, reserves from \$34.3 million (62.1% of revenues) in 2010 to \$56.9 million (81.2% of revenues) by the close of 2014. In 2014, after officials initially expected a \$3.6 million General Fund deficit, audited figures reflected a sizable \$4.9 million surplus, resulting from strong income tax growth and positive budget to actual variances. City management is typically conservative in their budgeting practices and initially budgeted for a 6.7% decrease in income tax revenues, however collections came in 7.3% over 2013 actual collections. Income taxes are derived from a 2% voted and continuous municipal income tax levied on all employees and residents in the city.

Income tax receipts are the city's largest revenue stream at 90% in 2014. In order to offset some of the risks associated with a volatile primary revenue source, the city has a policy to maintain at least 50% of expenditures in reserves to gird against fluctuations. These reserve levels provide the city with time to make budget adjustments necessary to adjust expenditures in the face of declining revenues. While the city's income tax base is concentrated with the top ten tax payers comprising over 30% of collections, this is mitigated somewhat by the diverse group of sectors that the largest employers are derived from, including healthcare, financial, and government. Income tax revenues have steadily increased and averaged 6% annual growth over the last five years. This growth is expected to continue, albeit at a slower pace, based on year to date trends. Through August 2015, income tax collections are down 2.3% year over year, compared to a budgeted decrease of 7.3% due to the loss of one of the city's largest income taxpayers. Based on current projections for 2015, management anticipates a \$3.7 to 4.0 million deficit in the city's General Fund. However, given the city's historical budgeting practices the variance with the actual results are likely to be positive. Management is budgeting is budgeting for flat income tax receipts in 2016 and a modest 1.3% decline in 2017, inclusive of the loss of Nationwide. The city annually transfers approximately \$12-14 million out of the General Fund for public safety operations, street maintenance and repair, recreation, pools, and cemetery. These transfers are supported by a dedicated levy for public safety. Despite the reliance on economically sensitive income tax revenues and taxpayer concentration, city finances are expected to remain strong given the robust reserves and proactive and conservative management team which has demonstrated an ability and willingness to adjust to financial pressures.

Liquidity

The city closed fiscal 2014 with an operating fund (General Fund + Debt Service Fund) net cash balance of \$62.6 million, or 89.4% of revenues.

DEBT AND PENSIONS: ABOVE AVERAGE DEBT BURDEN WITH FUTURE BORROWING PLANNED; NONTAX REVENUES PROVIDE SOLID COVERAGE

The city's above average debt burden will remain manageable despite future borrowing plans due to the city's continued growth in tax base valuations and proactive financing management. The city's 2.5% direct debt burden exceeds the state and national averages for the Aaa category. At the end of fiscal 2014, debt service comprised a manageable 12.3% of operating expenditures. The city's five year capital improvement program includes a number of a projects which are expected to be financed with cash, debt, and tax increment financing (TIF) revenues. Preliminary estimates indicate approximately \$75 million in debt issuances over the next five years to accommodate the upcoming projects.

The city's nontax revenues include charges for services; fees, licenses and permits; fines and forfeitures; investment earnings; intergovernmental revenues; and payments in lieu of taxes. The bonds contain a satisfactory additional bonds test, requiring a minimum of 2.0 times debt service coverage before additional bonds can be issued. Estimated maximum annual debt service on all the nontax revenue obligations is \$2.1 million (in 2031), with a debt service coverage of 3.4 times. We note that the city also utilizes nontax revenues to cover General Fund expenditures, with the pledged nontax revenues equaling approximately 10% of General Fund revenues. Favorably, maximum annual debt service (MADS) on both series of bonds comprises a modest 3.0% of the city's Operating Fund revenues. While the city expects to pay debt service with future revenue generated by existing TIF districts, a minimum service payment agreement from the property owners within the project area provides additional revenues should TIF revenues be inadequate. The property owners in the project development area have committed to minimum service payments (MSPs) of \$1.9 million in calendar year 2018, \$2.4 million of annual minimum service payments in calendar years 2019-2046, and minimum service payments of \$2.3 million in calendar year 2047. The city is projecting that revenue from the MSPs will provide coverage between 1.14x and 1.18x throughout the life of the nontax revenue bonds. Future credit reviews will focus on the ability of these future TIF revenues to cover debt service, as well as the property owners continued ability to make the MSPs, while assessing the General Fund impact of the use of nontax revenue should the TIF revenues and MSPs be inadequate.

Debt Structure

All of the city's outstanding debt is fixed rate. The city's principal amortization is below average with 54.3% of outstanding general obligation and nontax revenue debt retired within ten years.

Debt-Related Derivatives

Dublin is not a party to any interest rate swap agreements.

Pensions and OPEB

We calculate a moderate pension burden for Dublin based on unfunded liabilities of two defined benefit cost-sharing retirement plans as well as our methodology for adjusting reported pension information. City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). Dublin's three year average Moody's adjusted net pension liability (ANPL) through fiscal 2014 is \$153.3 million, equivalent to 2.8% of full valuation and 2.3 times fiscal 2014 operating revenues. We have 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 all retirement plans was \$4.5 million, or 6.5% of operating revenues.

Ohio statutes establish local government retirement contributions as a share of annual payroll. While the city has routinely made its full statutorily required payment to the cost-sharing plans, statutory contributions to OP&F have been set well below actuarially-based standards for a number of years, resulting in steady growth in that plan's unfunded liability. Positively, the Ohio legislature enacted reforms in 2012 for all cost-sharing plans that include reductions in cost-of-living adjustments (COLAs) and phased-in growth in employee contributions. While savings associated with COLA changes are incorporated in the city's fiscal 2013 ANPL, we anticipate that growing employee contributions will gradually improve the status of the statewide retirement plans.

MANAGEMENT AND GOVERNANCE: RELIANCE ON ECONOMICALLY SENSITIVE REVENUES BUT HIGH DEGREE OF EXPENDITURE FLEXIBILITY

Ohio cities have an institutional framework score of 'A' or moderate. Economically sensitive income tax collections typically account for more than half of operating revenue, but cities have the ability to increase tax rates with voter approval. Expenditures tend to be predictable and many cities maintain the flexibility to cut costs as needed.

Management has taken a prudent and active approach to building and maintaining its robust reserve position.

KEY STATISTICS

2014 Estimated full valuation: \$5.7 billion

2014 Estimated full valuation per capita: \$129,000

2012 Estimated median family income as % of the US: 214.6%

Fiscal 2014 available operating fund balance / operating revenue: 81.2%

5-year change in available operating fund balance / operating revenue: 41.9%

Fiscal 2014 operating net cash / operating revenue: 89.4%

5-year change in operating net cash / operating revenue: 44.5%

Institutional framework score: A

5-year average operating revenue / operating expenditures: 1.12

Net direct debt burden: 2.5% of full valuation; 2.0 times operating revenue

3-year average Moody's adjusted net pension liability: 2.8% of full valuation; 2.3 times operating revenue

OBLIGOR PROFILE

The city of Dublin is located approximately seventeen miles northwest of Columbus, offering a variety of municipal services to a population of approximately 44,000.

LEGAL SECURITY

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

Debt service on the nontax revenue bonds is secured by nontax revenues. However, the city expects debt service will be paid from future revenues generated in existing TIF districts.

USE OF PROCEEDS

The proceeds from the Series 2015 GOLT Bonds will be used to finance a variety of infrastructure improvements across the city as well as an expansion of the existing Justice Center.

Proceeds from the Series 2015A and 2015B nontax revenue bonds will finance the construction of two parking structures within the city's planned Bridge Park project. The project is expected to be majority financed by private developers, in excess of \$400 million.

PRINCIPAL METHODOLOGY

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

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Analysts

Kevin Archer
Lead Analyst
Public Finance Group
Moody's Investors Service

Mark G. Lazarus
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



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