

CREDIT OPINION

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New Issue

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Dublin (City of) Ohio

New Issue - Moody's Assigns Aaa to Dublin, OH's GO Bonds

Summary Rating Rationale

Moody's Investors Service assigns a Aaa rating to the City of Dublin, OH's \$31.9 million General Obligation (Limited Tax) Various Purpose Bonds, Series 2017. Moody's affirms the Aaa rating on the city's outstanding general obligation unlimited tax (GOULT) and limited tax (GOLT) debt. Moody's also affirms the Aa1 rating on the city's nontax revenue bonds. The outlook is stable. With the current sale, the city will have \$166 million of rated debt outstanding.

The Aaa reflects the city's large and affluent tax base in the Columbus (Aaa stable) metro area and strong financial operations supported by robust reserves and a conservative management team. The rating also considers the city's high debt burden and exposure to poorly funded statewide pension plans. The lack of notching on the GOLT reflects the city's full faith and credit pledge to pay debt service. The Aa1 rating on the nontax revenue bonds is one notch lower than the general obligation rating due to the more limited nature of the pledged revenues (nontax revenues).

Credit Strengths

- » Affluent and growing tax base in the Columbus metropolitan area
- » Robust operating fund reserves and liquidity
- » Strong and proactive management team

Credit Challenges

- » High debt burden with slow amortization schedule
- » Above average unfunded pension burden arising from participation in two underfunded cost-sharing retirement plans

Rating Outlook

The stable outlook reflects our expectation that the city's strong income tax base and ample reserves will continue to support a strong credit profile despite expected growth in its debt burden.

Factors that Could Lead to an Upgrade

Not applicable

Factors that Could Lead to a Downgrade

- » Growth in the city's debt or pension burden beyond current estimates
- » Material declines in fund balances and liquidity
- » Contraction of the city's affluent tax base

Key Indicators

Exhibit 1

Dublin (City of) OH	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 5,838,579	\$ 5,580,956	\$ 5,578,344	\$ 5,527,763	\$ 5,724,045
Full Value Per Capita	\$ 144,688	\$ 136,064	\$ 132,951	\$ 130,439	\$ 128,224
Median Family Income (% of USMedian)	210.3%	214.6%	210.1%	208.4%	208.4%
Finances					
Operating Revenue (\$000)	\$ 58,093	\$ 62,802	\$ 65,566	\$ 70,019	\$ 70,084
Fund Balance as a % of Revenues	78.7%	82.5%	86.9%	81.2%	90.7%
Cash Balance as a % of Revenues	79.8%	85.3%	87.3%	89.4%	95.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 39,845	\$ 46,635	\$ 51,580	\$ 56,895	\$ 131,885
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.8x	0.8x	1.9x
Net Direct Debt / Full Value (%)	0.7%	0.8%	0.9%	1.0%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.7x	2.2x	2.3x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.9%	2.5%	2.9%	2.7%

Table reflects audited financial data as of fiscal year-end. Post-sale, net direct debt will be 3.2% of full value and 2.8x operating revenues.

Source: Audited Financial Statements, US Census, Moody's Investors Service

Recent Developments

Unaudited financial statements for fiscal 2016 reflect a 2.5% increase in income tax revenues and a modest \$1.1 million draw on reserves.

Detailed Rating Considerations

Economy and Tax Base: Affluent and Growing Columbus Suburb

Dublin's very close ties to the Columbus metro area as well as its own expanding residential and commercial base will support a stable economic profile. Although the tax base declined by a cumulative 5.3% between 2011 and 2014, it grew at an average annual rate of 2.2% over the past three years to its current \$5.9 billion full valuation. Officials report that the county estimates additional growth of 8.5% in the next reappraisal for the city. The city is primarily residential (77% of assessed valuation) and serves as an attractive option for many employed in the greater Columbus area given its high service levels. The city's population grew 33% between 2000 and 2010. Median family income in the city is 212% of the national figure and unemployment, as of April 2017, was a low 2.8%.

A large commercial sector contributes to a substantial increase in the daytime population, which the US Census Bureau estimates at 50% over the resident population. Some of the largest employers in the city include Cardinal Health, Inc. (Baa2 stable; 3,600 employees) and OhioHealth (Aa2 stable; 1,680 employees). The city has benefitted from a number of businesses or institutions relocating or expanding inside the city in recent years. These include Vadata Inc., an affiliate of Amazon.com, Inc. (Baa1 stable) and the expansion of Ohio University's (Aa3 stable) Heritage College of Osteopathic Medicine. There have also been some notable employment losses for the city. Nationwide Life Insurance Company (A1 stable; 3,400 employees) is relocating its operations from

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Dublin, a process expected to be completed by 2018. Additionally, Wendy's International, LLC (Caa1 stable; 638 employees) has announced plans to reduce the workforce at its corporate headquarters in Dublin.

Financial Operations and Reserves: Strong Financial Operations Supported By Robust Reserves

Dublin's financial position is strong and supported by steady growth in income tax revenue. The city achieved a steady trend of operating surpluses, increasing available operating fund balance across its general and debt service funds from \$35.4 million (64.0% of revenues) in 2010 to \$63.6 million (90.7% of revenues) by the close of 2015. The city's available fund balance grew by \$11.1 million in fiscal 2015 alone. The city had budgeted conservatively given some employment losses and year-end variances in income tax revenue were strong.

The city levies a 2% permanent income tax on all residents and workers in the city. Income taxes make up 90% of the city's annual operating revenue. To mitigate the risks associated with a volatile revenue source, the city has a policy to maintain at least 50% of expenditures in reserves. There is some concentration in the income tax base, with the ten largest payers comprising 30% of collections. However, sector diversity is very high and includes a mix of healthcare, financial, and government employers. After increasing at an average annual rate of 6.0% from 2010 to 2014, income taxes declined by 0.3% in 2015 due to the relocation of Verizon employees. While audited statements are not yet available for fiscal 2016, the city's draft financial statements reflect a 2.5% increase in income taxes. Management estimates that reserves declined by \$1.1 million due to one-time capital costs.

Management currently anticipates a \$1.6 million deficit in the city's general fund for fiscal 2017. However, given the city's history of positive budget variances, the actual results are likely to be better than budgeted. For instance, the budget very conservatively assumes a 6% decline in income tax receipts.

LIQUIDITY

The city closed fiscal 2015 with an operating net cash balance of \$67 million, or 95.5% of revenues. Unaudited statements for fiscal 2016 indicate a closing net cash balance of \$57 million or 82% of revenues. The city also holds substantial cash and reserves in its various capital funds, which collect 25% of income tax revenues. Total cash across all governmental funds at the close of fiscal 2016 is estimated at \$163 million or 140% of total governmental operating revenues.

Debt and Pensions: High Debt Burden For Rating Category With Future Borrowing Planned

The city's debt burden is high relative to the Aaa rating and is projected to grow with additional borrowings for economic development. Net direct debt is 3.2% of full value and 2.8x operating revenues. The city's five year capital improvement program includes a number of projects expected to be financed with cash, debt, and tax increment financing (TIF) revenues. The city anticipates issuing \$119 million over the next five years, which could raise the city's debt burden to roughly 4% of full value, though the burden could be more moderate if current tax base growth continues. Additionally, further growth in revenue will keep the debt-to-revenue ratio moderate despite the planned borrowing. The city anticipates issuing up to \$22 million in 2018.

The city's pension burden is also above average. The Moody's adjusted net pension liability (ANPL) for the city in fiscal 2015, which incorporates adjustments we make to reported pension data, is 2.7% of full valuation and 2.2 times fiscal 2015 operating fund revenue. Fixed costs, inclusive of debt service and retirement plan contributions, were a moderate 18% of operating fund revenue in 2015.

DEBT STRUCTURE

All of the city's outstanding debt is fixed rate. The city's principal amortization is below average with 55% of outstanding general obligation and nontax revenue debt retired within ten years.

The additional bonds test associated with nontax revenue bonds is 2.0x debt service. Estimated maximum annual debt service on all nontax revenue obligations is \$2.1 million (in 2031). Current nontax revenues provide 3.4x coverage of this amount.

DEBT-RELATED DERIVATIVES

The city is not a party to any interest rate swap agreements.

PENSIONS AND OPEB

City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). Ohio statutes establish local government retirement plan contributions as a share of annual payroll. Fiscal 2015 statewide

employer contributions to OPERS and OP&F were 111% and 93%, respectively, of the amounts required for both plans to tread water, that is forestall growth in reported net pension liabilities assuming other plan assumptions, including investment returns, are realized.

Ohio statute establishes a 30-year target for amortizing unfunded liabilities of all statewide cost-sharing plans. If plan actuaries determine current contribution rates and actuarial assumptions result in an amortization period exceeding 30 years, the pension fund must submit a plan for adjusting contributions or benefits to meet the 30-year requirement. The state legislature adopted benefit reforms for all Ohio cost-sharing plans in 2012 that amended annual cost-of-living adjustments for retirees, resulting in a considerable decline in reported unfunded liabilities in 2013. However, reported net pension liabilities of all Ohio cost-sharing plans grew in 2015, in part due to weak investment returns relative to plan assumptions. This trajectory raises the risk that further plan adjustments will have to be made, potentially resulting in increased city contributions.

Management and Governance: Moderate Institutional Framework

Ohio cities have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source, income tax, is subject to a local 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. Revenues and expenditures tend to be predictable. Ohio has public sector unions, which can limit the ability to cut expenditures.

The city's consistent history of positive variances reflects conservative budgeting practices. Management recently adopted a formal debt policy to support its continued borrowing, designating 60% of all income tax revenues collected into the capital fund for debt service. The city currently allocates 25% of its income tax collections to the capital fund. Additionally, 25% of reserves in the General Fund that exceed 75% of expenditures are transferred to the capital fund to support debt service or capital investments.

Legal Security

Debt service on the 2017 bonds and outstanding GOLT debt 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 GOULT bonds is secured by the city's general obligation unlimited tax pledge.

Debt service on the nontax revenue bonds is secured by nontax revenues of the general fund. 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.

Use of Proceeds

The proceeds from the Series 2017 GOLT Bonds will be used to finance a variety of sewer system, city facility, and transportation improvements.

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.

Methodology

The principal methodology used in the GOULT and GOLT ratings was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the nontax revenue rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moody.com for a copy of these methodologies.

Ratings

Exhibit 2

Dublin (City of) OH

<u>Issue</u>	<u>Rating</u>
Various Purpose Bonds, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$31,880,000
Expected Sale Date	07/19/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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