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Summary:

Dublin, Ohio; General Obligation

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Credit Profile		
US$31.88 mil GO (ltd tax) various purp bnds ser 2017 due 12/01/2037		
Long Term Rating	AAA/Stable	New

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Dublin, Ohio's series 2017 limited-tax general obligation (GO) various purpose bonds. The outlook is stable.

The city's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure the notes and the bonds. We believe the city possesses the financial stability necessary to sustain ratings on the limited-tax bonds equal to an unlimited-tax pledge. The city will use series 2017 bond proceeds to finance various sewer system, city facility, and transportation improvements. Although the bonds are legally secured only by the city's GO pledge, officials plan to use a combination of sewer revenue, income taxes, and tax increment financing revenue to repay the debt.

Dublin's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above the Sovereign--Corporate and Government Ratings: Methodology and Assumptions," published Nov. 19, 2013 on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention.

The 'AAA' rating reflects our assessment of the following factors for the city, specifically its:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 76% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.8% of total governmental fund expenditures and 4.5x governmental debt service;
- Weak debt and contingent liability position, with debt service carrying charges at 10.7% of expenditures and net direct debt that is 139.1% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Dublin's economy very strong. The city, with an estimated population of 46,360, is located in Delaware, Franklin, and Union counties in the Columbus, OH MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 177% of the national level and per capita market value of $141,328. Overall, the city's assessed value grew by 1.2% over the past year to $2.1 billion in 2017. The weight-averaged unemployment rate of the counties was 3.9% in 2016.

Dublin is located directly northwest and adjacent to the City of Columbus, the state capital. Since it became a city in 1987, Dublin's population has grown significantly, making it the second largest city in Franklin County. In addition to a strong residential base, the city has also developed a large commercial and industrial base with over 4,300 businesses employing approximately 75,000 workers. In our view, this provides a robust and diverse income tax base for the city.

The city's largest business sectors include information technology, biomedical and health care services, and business support services. The city is also home to various corporate headquarters including Cardinal Health and The Wendy's Company. The city's top 10 employers accounted for approximately 29.5% of the city's total income collections in 2016.

In the last few years, the city has experienced the loss of some major employers, including employees at Nationwide Insurance Enterprise (3,400 employees are anticipated to be moved out of the city by the end of 2018) and 500 employees at JPMorgan Chase & Co. In addition, Wendy's has announced plans to reduce its personnel, though still maintain its headquarters in the city. Despite these losses, growth at other businesses has helped to weather the loss of these employees, and the city continues to work to retain and attract other businesses. Most recently, UnitedHealthcare announced its intention to bring 700 new jobs to the city. Given the overall size and diversity of the city's income tax base, and the city's commitment to economic development, we believe it will be able to manage the loss of these employers without significant financial pressure.

The city continues to invest in infrastructure and utilize economic development tools to spur development, which we believe should contribute to market value growth. The city has 35 tax increment districts, so we have adjusted current market values to include values from these districts. Franklin County is currently undergoing its six year reappraisal, and preliminary estimates from the county auditor indicate residential value growth of 8.5% and commercial growth of 9.2%. Overall, we anticipate Dublin's economy will remain very strong.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

For purposes of budgeting, officials do a detailed income analysis, have a comprehensive schedule for fee-based services, and look at historical trends for other revenue and expenditures. In our opinion, assumptions are conservative. The council receives a monthly report with budget-to-actual results, and the budget can be amended when necessary.

Officials project income tax revenue for five years, but do not perform detailed forecasting for other revenue and expenditures. The city does have a comprehensive five-year rolling capital improvement plan that identifies estimated costs and funding sources. The plan is approved by city council.

The city has a formal investment policy, but the council sees investment holdings only on an annual basis.

The city's debt policy is well defined, and restricts the amount of debt that the city can issue to an extent beyond state guidelines. Although the city has historically issued GO debt, in practice it uses income tax revenue to pay the debt service on the bonds, as governed by the debt policy. Pursuant to voter authorization, 25% of the city's income tax collections are dedicated to capital expenditures, including the payment of debt service. The debt policy stipulates that 60% of income tax collections will be allocated to debt service, and that the maximum amount of existing and proposed debt must not exceed 90% of this allocation in any given year. In our view, this helps to ensure that income tax revenue will be sufficient to cover debt service even if income tax revenue declines, and therefore reduces the general fund's potential liability for this debt service.

Last, the city has a formal reserve policy that requires a minimum general fund balance equal to 50% of expenditures. The city chose this level, in part, to give it enough time to react should a large employer leave the city. This also allows the city to advance revenue to capital funds to jumpstart projects. The city is in compliance with this policy.

Strong budgetary performance

Dublin's budgetary performance is strong, in our opinion. The city had operating surpluses of 9.9% of expenditures in the general fund and of 10.3% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 results in the near term.

In 2013 to 2015 the city produced annual general fund surpluses in excess of 20% of expenditures, but we believe the size of the surpluses might moderate in the next couple years. For fiscal 2016, we are sourcing financial results from the city's draft audit, which is reported on a generally accepted accounting principles basis. As part of our analysis, we combined the city's safety fund with the general fund, as this fund represents the city's police department, which we view as a core operating service. The general fund annually subsidizes this fund through a transfer. We also removed one-time expenditures for two land purchases as well as expenditures that were financed with bond proceeds, both of which we view as nonrecurring expenditures.

The city levies a 2% income tax on salaries and wages earned by workers employed in the city and on business profits. In 2016, income tax revenue accounted for 91% of general fund revenue and 72% of total governmental fund revenue. In 2011 to 2016, the city's total income tax collections increased by a very strong 25.6%., which has contributed to strong budgetary performance. In 2016, income tax revenue increased 2.5% overall.

Given the aforementioned reduction in workforce at Nationwide, JPMorgan Chase, and Wendy's, the city is budgeting for a 5.8% decline in income tax revenue in its fiscal 2017 budget. This equates to a $3.9 million loss of revenue in the general fund. However, the city budgets very conservatively and typically outperforms projections. For example, on a budgetary basis of accounting in 2016, the city experienced a positive budget-to-actual variance of $16 million. According to officials, the city is outperforming its budget in 2017. Because of the conservative nature of the budget, we anticipate the city will end 2017 with another surplus, albeit one likely smaller than in recent years. Further supporting this assumption is that operating surpluses in the general fund over the past four years have well exceeded the budgeted decline in income tax revenue.

Very strong budgetary flexibility

Dublin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 76% of operating expenditures, or $49.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has no plans to significantly spend down its fund balance and therefore we anticipate that it will remain very strong. The city also has a formal policy to maintain a minimum fund balance equal to 50% of budgeted general fund expenditures. The policy stipulates that to the extent the fund balance exceeds 75% of expenditures, 25% of the excess will be transferred over to the capital improvement tax fund. The capital improvement tax fund also receives 25% of the city's total income taxes, and had $60.4 million in reserves at the end of 2016. Pursuant to the city's debt policy, 40% of the income tax revenue that flows into this fund can be used to cash fund projects. While we don't view this as available to support the general fund, it does reduce the potential that the city would draw down the general fund balance for capital projects, in our view.

The city's income tax rate cannot be increased without voter approval. The city does offer a 100% income tax credit to residents who work in other municipalities, and this could be reduced by council vote, thereby increasing revenue, though the city has no plans to do so.

Very strong liquidity

In our opinion, Dublin's liquidity is very strong, with total government available cash at 47.8% of total governmental fund expenditures and 4.5x governmental debt service in 2016. In our view, the city has satisfactory access to external liquidity if necessary.

We have adjusted cash to exclude restricted cash, but the city's liquidity remains very strong. The city has issued various types of debt through the capital markets in the past 20 years, and we believe that this demonstrates access to external liquidity if necessary. The majority of the city's investments are in federal agency securities and money market funds, which we don't consider risky. In addition, management has confirmed that the city has no contingent liquidity risks from liabilities or financial instruments with payment provisions that change upon certain events.

Weak debt and contingent liability profile

In our view, Dublin's debt and contingent liability profile is weak. Total governmental fund debt service is 10.7% of total governmental fund expenditures, and net direct debt is 139.1% of total governmental fund revenue.

The city plans to issue approximately $21.6 million in fiscal 2018 to fund projects as part of its capital improvement plan. Beyond 2018, the city will likely issue additional debt, but plans have not been finalized. Nevertheless, we believe that the city's debt policy and strong financial position should help maintain manageable debt levels in the future. The 25% allocation of income tax revenue to the city's capital improvement fund cannot be changed without voter approval.

In 2015, the city issued $32 million in nontax revenue bonds to construct two parking garages within its Bridge Street development district. Although the bonds are secured by all of the city's nontax revenue, the city has entered into agreements with property owners within the district to provide annual minimum service payments that, in aggregate, are sufficient to cover debt service.

Dublin's required pension and actual other postemployment benefits (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015. Eligible city employees participate in either the Ohio Public Employees Retirement System (OPERS) or the Ohio Police and Fire Pension Fund (OP&F), both multi-employer, cost-sharing state retirement systems. Employees participate in a choice of defined benefit, defined contribution, or combined plans. OPEBs are provided through the state plans.

Per Government Accounting Standards Board (GASB) Statement No. 68 standards, employers with benefits administered through cost-sharing multiemployer pension plans such as OPERS and OP&F must report their proportionate share of the net pension liability. The city's proportions of the net OPERS and OP&F liabilities as of the 2014 valuation were $31.3 million and $18.1 million, respectively. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 86.5% for OPERS and 71.2% for OP&F.

In our opinion, the funded ratios for the two plans are inflated as a result of what we consider optimistic actuarial assumptions, such as above-average discount rates. We note that the underfunded pensions could likely lead to an increase in contributions if not adequately addressed by the state. In this scenario, we believe that Dublin is well positioned to manage any increases without significant budget stress given the city's very strong financial position and the relatively small percentage of contributions in its budget.

Strong institutional framework

The institutional framework score for Ohio cities is strong.

Outlook

The stable outlook reflects our anticipation that the rating will not change in the next two years, as we believe that Dublin will maintain very strong liquidity and very high reserves in line with its reserve policy of 50% of expenditures. We also anticipate it will continue to benefit from strong management conditions by maintaining its financial management practices and pursuing economic development. We believe that the very strong reserves and strong management mitigate the city's reliance on income taxes, which we view as a more volatile revenue source, as well as its weaker debt burden. The city's participation in the broad and diverse Columbus MSA lends further stability to the rating. Although unlikely, the rating could come under pressure in case a material reduction in income tax revenue weakens the city's budgetary performance and shifts more of the city's debt service liability to its general fund.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,