

CREDIT OPINION

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Contacts

Matthew Butler +1.212.553.7108
VP-Senior Analyst
 matthew.butler@moody's.com

Ryan Patton +1.312.706.9954
Associate Lead Analyst
 ryan.patton@moody's.com

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Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Dublin (City of) OH

Update to credit analysis

Summary

[Dublin, OH's](#) (Aaa stable) very strong credit profile is supported by the city's diverse tax base in the Columbus metro area that attracts both affluent residents and large employers. Growing income taxes and strong financial management practices have supported the accumulation of robust reserves, with significant amounts set aside for capital projects. The city's primary challenge is a high debt burden. Net direct debt is expected to rise on a nominal basis as the city undertakes significant reinvestment in the coming years, but continued growth in the economy and revenue base should keep the debt burden from rising too materially. The city also remains exposed to poorly funded statewide pension plans.

Credit strengths

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

Credit challenges

- » High debt burden with slow amortization
- » 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 that far outpaces growth in the economic and revenue base
- » Material declines in fund balances and liquidity
- » Contraction of the city's affluent tax base

Key indicators

Exhibit 1

Dublin (City of) OH	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$5,578,344	\$5,527,763	\$5,724,045	\$5,826,517	\$5,894,522
Population	41,958	42,378	43,224	43,874	47,325
Full Value Per Capita	\$132,951	\$130,439	\$132,427	\$132,801	\$124,554
Median Family Income (% of US Median)	210.1%	208.5%	211.9%	212.2%	212.2%
Finances					
Operating Revenue (\$000)	\$65,566	\$70,019	\$70,084	\$69,517	\$68,008
Fund Balance (\$000)	\$56,959	\$56,853	\$63,558	\$54,171	\$61,969
Cash Balance (\$000)	\$57,221	\$62,611	\$66,955	\$60,983	\$64,478
Fund Balance as a % of Revenues	86.9%	81.2%	90.7%	77.9%	91.1%
Cash Balance as a % of Revenues	87.3%	89.4%	95.5%	87.7%	94.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$51,580	\$56,895	\$131,885	\$138,510	\$157,935
3-Year Average of Moody's ANPL (\$000)	\$141,822	\$158,384	\$156,483	\$151,681	\$153,071
Net Direct Debt / Full Value (%)	0.9%	1.0%	2.3%	2.4%	2.7%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	1.9x	2.0x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.5%	2.9%	2.7%	2.6%	2.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.2x	2.3x	2.2x	2.2x	2.3x

Source: Audited financial statements, US Census, Moody's Investors Service

Profile

The City of Dublin is located approximately seventeen miles northwest of [Columbus](#) (Aaa stable), offering a variety of municipal services to a population of approximately 44,000.

Detailed credit 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. The property tax base grew 8.4% in the latest reappraisal, bringing full valuation to a high of \$6.4 billion. 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. 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 August 2018, was a low 3.4%.

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; 4,800 employees) and [OhioHealth](#) (Aa2 stable; 1,680 employees). The city has benefitted from a number of business relocations or expansions inside the city in recent years. These include Vadata Inc., an affiliate of [Amazon.com, Inc.](#) (A3 positive) and the expansion of [Ohio University's](#) (Aa3 stable) Heritage College of Osteopathic Medicine. While there have been some notable employment losses for the city, such as the relocation of Nationwide Life Insurance Company (A1 stable; 3,400 employees) to downtown Columbus and contraction at [Wendy's International, LLC](#) (Caa1 stable; 636 employees), management reports that demand for office space in the city remains high as evidenced by high rental rates and relatively low vacancy.

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Financial operations and reserves: strong financial operations supported by robust reserves

Dublin's financial position is strong and supported by a long-term trend of income tax growth. The city closed fiscal 2017 with a \$3.6 million surplus across its operating funds (general and debt service), raising available fund balance to \$62 million or a very strong 91% of operating revenues. Five years prior in 2012, available fund balance was \$52 million or 83% of revenues. Management's conservative budgeting practices contributed to the surplus in 2017, which occurred despite some loss in income taxes following the exit of Nationwide.

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 0.3% in 2015 due to the relocation of Verizon employees. Management reports that income taxes are up 0.1% through October for 2018 but the city conservatively budgeted for a 1.2% decline. The budget assumes a \$7.3 million draw on general fund balance mostly driven by \$9.5 million in capital spending, which includes the purchase of a new city hall building. If fully realized, the draw would reduce general fund balance to roughly 75% of revenue.

Management has not yet adopted a budget for fiscal 2019, but conservatively projects that income taxes will decline another 1.2%.

LIQUIDITY

The city closed fiscal 2017 with an operating net cash balance of \$64 million, or 95% of revenues. The city also holds substantial cash and reserves in its various capital funds, which collect 25% of income taxes. Total cash across all governmental funds at the close of fiscal 2017 was \$164 million or 142% 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 for the Aaa category and is projected to grow with additional borrowings for economic development. Net direct debt is 2.7% of full value and 2.6x 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, encompassing \$194 million in projects. The city currently anticipates issuing \$33 million over the next five years. Implementation of the capital plan could raise the city's debt burden to nearly 4% of full value over the next several years, though the burden would be more moderate if current tax base growth continues. Additionally, further growth in revenue will keep the debt-to-revenue ratio moderate. The city anticipates issuing \$11 million in 2019.

The city's pension burden is also above average. The Moody's adjusted net pension liability (ANPL) for the city in fiscal 2017, which incorporates adjustments we make to reported pension data, is 2.4% of full valuation and 2.3x fiscal 2017 operating fund revenue. Fixed costs, inclusive of debt service and retirement plan contributions, are high at 27% of operating fund revenue.

DEBT STRUCTURE

In addition to general obligation bonds, the city has \$32 million of nontax revenue bonds outstanding. The bonds are secured by nontax revenues of the city's general fund, such as charges for services, fees, and intergovernmental revenues. Estimated maximum annual debt service on all nontax revenue obligations is \$2.1 million (in 2031). Current nontax revenues provide 3.1x coverage of this amount. The additional bonds test associated with nontax revenue bonds is 2.0x debt service.

All of the city's outstanding debt is fixed rate. The city's principal amortization is below average with 54% of outstanding general obligation and nontax revenue debt retired within ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

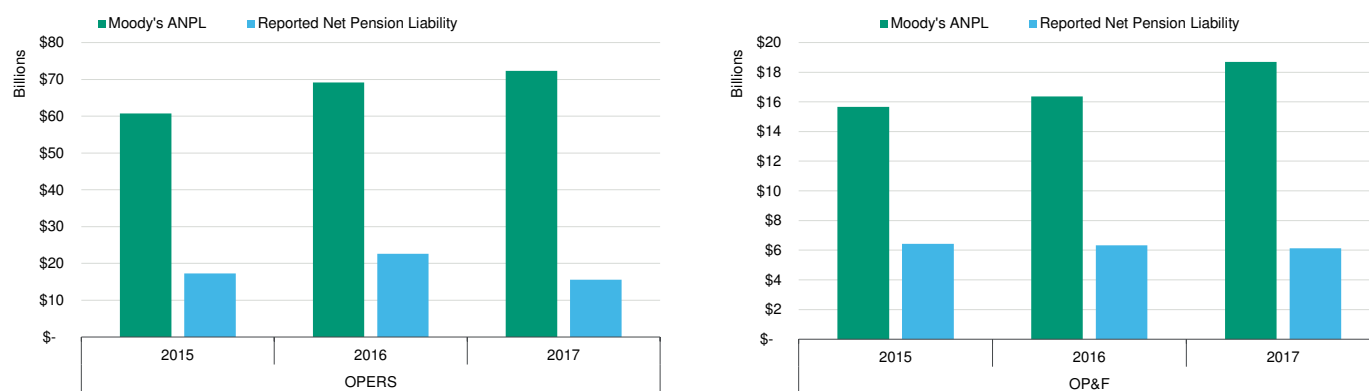
City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). There is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans. In 2012, the 30-year target was breached and the state legislature acted by reducing

benefits and increasing employee contributions. The 2012 reforms did not increase employer contributions from participating governments.

Moody's adjusted net pension liability (ANPL) is our measure of a local government's pension burden that uses a market-based interest rate to value accrued liabilities. The 4.6% and 14.3% increase in the respective OPERS and OP&F ANPLs in 2017 was largely due to a drop in the market-based interest rate from the prior year. On a reported basis, the combined net pension liability of the two plans fell by 25.2% between 2016 and 2017 due to favorable investment returns.

Exhibit 2

Market-based interest rate results in larger ANPL



Source: Audited financial statements of OPERS and OP&F, Moody's Investors Service

Going forward, we expect unfunded liabilities to grow because statewide contributions remain below the amount necessary for the two plans to tread water.¹ Fiscal 2017 employer contributions, which are set by the state as a share of annual payroll, were 83% and 87% of the amounts needed to tread water in OPERS and OP&F, respectively.

Management and Governance: Moderate Institutional Framework

Ohio cities have an Institutional Framework score of A, which is moderate. 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 the capital fund's income taxes for debt service. The city allocates 25% of its total income tax 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.

Endnotes

¹ Our "tread water" indicator measures the annual government contribution required to prevent reported net pension liabilities from growing, given the entity's actuarial assumptions. An annual government contribution that treads water equals the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year. A pension plan that receives an employer contribution equal to the tread water indicator will end the year with an unchanged net pension liability relative to the beginning of the year if all plan assumptions hold. Net liabilities may decrease or increase in a given year due to factors other than the contribution amount, such as investment performance that exceeds or falls short of a plan's assumed rate of return. Still, higher contributions will always reduce unfunded liabilities faster, or will allow unfunded liabilities to grow more slowly than lower contributions.

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