S&P Global Ratings

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Summary:

Dublin, Ohio; General Obligation

Primary Credit Analyst:
Benjamin D Gallovic, Chicago + 1 (312) 233 7070; benjamin.gallovic@spglobal.com

Secondary Contact:
Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@spglobal.com

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Summary:

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Credit Profile		
US$18.7 mil GO (ltd tax) various purp bnds ser 2018A due 12/01/2038		
Long Term Rating	AAA/Stable	New
US$4.0 mil GO (ltd tax) various purp bnds ser 2018B due 12/01/2038		
Long Term Rating	AAA/Stable	New
Dublin GO (ltd tax) various purp bnds ser 2017 due 12/01/2037		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Dublin, Ohio's series 2018A and 2018B limited-tax general obligation (GO) various purpose bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's previously issued GO debt. 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 bonds. We rate the limited-tax GO debt at the same level as our view of the city's general creditworthiness, as reflected by an unlimited-tax GO pledge. The city will use series 2018 bond proceeds to finance a new parking garage and various road, sewer system, and park 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 moderately sensitive 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.

In our view, Dublin's status as a desirable suburb within the fast-growing Columbus metropolitan statistical area (MSA), its commitment to maintaining a large and diverse employment base, which supports a healthy income tax stream, and its robust financial policy framework are key credit strengths supporting the 'AAA' rating. In our opinion, the recent loss of several large businesses in the city has served as a stress test to the city's credit quality: Despite the loss of these income tax generators, the city has maintained a very strong financial profile, which we believe reflects the aforementioned credit strengths and indicates that the city can withstand future pressures while maintaining a 'AAA' rating. The city continues to utilize economic development tools and infrastructure investments to retain and attract businesses, and we believe that this will provide stability to the income tax base. Although overall debt levels remain weak, we believe this is mitigated by ongoing economic development, which will further bolster the city's tax base, the maintenance of very strong reserves, and the city's formal debt policy, which helps to manage the debt load.

The 'AAA' rating reflects our assessment of the city's:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 96% of operating expenditures;
- Very strong liquidity, with total government available cash at 37.9% of total governmental fund expenditures and 3x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 12.7% of expenditures and net direct debt that is 150.6% 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 46,888, is located in Delaware, Franklin, and Union counties in the Columbus MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 186% of the national level and per capita market value of $151,370. The weight-averaged unemployment rate of the counties was 3.9% in 2017.

Dublin is directly northwest of and adjacent to the City of Columbus, the state capital. Since it became a city in 1987, Dublin has seen significant population growth, making it the second-largest city in Franklin County. In addition to a strong residential base, the city has developed a large commercial and industrial base with more than 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 Co. The city's top 10 employers accounted for approximately 28% of total income collections in 2017.

In the past few years, the city has lost some major employers, including Nationwide Insurance Enterprise (about 3,400 employees) and JPMorgan Chase & Co. (500). (In addition, Wendy's, which employs 636, has announced plans to reduce personnel but maintain its headquarters in the city.) As a result, income tax revenue fell 2.75% in 2017 and management is conservatively projecting it will drop 1.2% in 2018 and 2019 before flattening out. 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. We believe that the city is taking steps to maintain a desirable business environment, such as diversifying its housing, office, and retail stock with the development of a new mixed-use neighborhood (the Bridge Street District), and helping to implement new infrastructure (such as a city-owned fiber-optic network and improved public transportation) within older office parks.

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 36 tax increment districts, so we have adjusted market values to include values from these districts. The city's assessed value increased 8.4% in the 2017-2018 sexennial reappraisal. Overall, we anticipate that 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 financial management assessment 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, keep 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, and the council sees investment holdings and earnings on a monthly basis.

The city's debt policy is well defined, and restricts the amount of debt that the city can issue. 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 be allocated to debt service, and that the maximum amount of existing and proposed debt not exceed 90% of this allocation in any given year. In our view, this helps 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 itself 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.

Very strong budgetary performance

Dublin's budgetary performance is very strong, in our opinion. The city had operating surpluses of 18% of expenditures in the general fund and of 3.1% across all governmental funds in fiscal 2017.

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 capital projects 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 2017, income tax revenue accounted for 90% of general fund revenue and 70% of total governmental fund revenue.

In 2011 to 2017, the city's total income tax collections increased by an annual average of 3.7%, which has contributed to strong budgetary performance. In 2017, income tax revenue decreased 2.75% (compared with the budgeted 5.8% decline) as a result of the aforementioned reduction in workforce at Nationwide and JPMorgan Chase. Despite the small decline, the city still posted a large operating surplus, which we believe demonstrates the city's ability to withstand a loss of a major employer while maintaining credit quality consistent with a 'AAA' rating.

The city's budget for fiscal 2018 assumed a 1.7% decrease in income tax collections, though through October, collections were exceeding year-to-date collections by 0.1%. The budget calls for a use of reserves, though this represents one-time transfers for capital and land acquisition costs. After removal of these one-time items, the budget is operationally balanced. Furthermore, the city budgets very conservatively and typically outperforms projections. For example, on a budgetary basis of accounting in 2017, the city experienced a positive budget-to-actual variance of $5.5 million. Because of the conservative nature of the budget, we anticipate the city will end 2018 with another surplus, albeit one likely smaller than in recent years as a result of softening in income tax collections. We believe the city has the flexibility to make budget adjustments as it deems necessary to maintain strong budgetary performance.

Very strong budgetary flexibility

Dublin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 96% of operating expenditures, or $57.2 million. The available portion includes unassigned and assigned fund balances in the audit. 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.

At the end of 2017, the city's total general fund balance was $104.4 million. The city has a practice of advancing general fund cash for construction projects that will later be reimbursed with bond proceeds and repayments from tax increment financing funds. At the end of 2017, the audit classified $46.8 million of the general fund balance as nonspendable, representing these advances to other funds. Although the city may utilize some general fund reserves for capital projects over the next few years, we anticipate available reserves will remain very strong. The city 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 $66 million in reserves at the end of 2017. 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 37.9% of total governmental fund expenditures and 3x governmental debt service in 2017.

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 12.7% of total governmental fund expenditures, and net direct debt is 150.6% of total governmental fund revenue.

The city plans to issue a total of $24.4 million in 2019 and 2020 to fund projects as part of its capital improvement plan. According to management, the city is undergoing a period of higher investment, and its capital improvement depicts a drop in debt issuance starting in 2021. We also believe that the city's debt policy and strong financial position should help maintain manageable debt levels. The 25% allocation of income tax revenue to the city's capital improvement fund, which is used for debt service, 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.

The city has no direct purchase or private placement debt.

Dublin's required pension and actual other postemployment benefits contributions totaled 4.1% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution.

Eligible city employees participate in either the Ohio Public Employees Retirement System (OPERS) or the Ohio Police and Fire Pension Fund (OP&F), both multiple-employer, cost-sharing state retirement systems. Employees participate in a choice of defined benefit, defined contribution, or combined plans. Other postemployment benefits are provided through the state plans.

Per Government Accounting Standards Board (GASB) Statement No. 68 standards, employers with benefits administered through cost-sharing, multiple-employer 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 2017 valuation were $40.8 million and $12.3 million, respectively. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 84.7% for OPERS and 70.9% 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 that it will continue to benefit from strong management conditions by maintaining its financial management practices and pursuing economic development. We believe that 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 significant loss of employers or material reduction in income tax revenue weakens the city's budgetary performance and shifts 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
- 2018 Update Of Institutional Framework For U.S. Local Governments