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CREDIT OPINION
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Dublin (City of), OH

Update to credit analysis

Summary

The City of Dublin (Aaa stable) continues to exhibit an excellent credit profile highlighted by its sizable, affluent tax base favorably located within the Columbus (Aaa stable) metropolitan region. The city's resilient income tax collections and strong financial management practices have supported the accumulation of robust reserves, with significant amounts set aside for capital projects. The city's primary challenges include an above-average debt and pension burden.

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 slower than average principal amortization

» Above average unfunded pension burden arising from participation in two underfunded cost-sharing retirement plans

Rating outlook

The stable outlook reflects the expectation that the city's strong local economy, robust income tax base and ample reserves will continue to support a strong credit profile.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Contraction of the city's affluent property and income tax base

» Material declines in operating fund balances and liquidity

» Growth in the city's debt or pension burden that far outpaces growth in the economic and revenue base

Key indicators

Exhibit 1

Dublin (City of) OH	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$5,826,517	$5,894,522	$6,392,298	$6,522,291	$6,615,576
Population	43,874	44,442	45,559	46,499	46,499
Full Value Per Capita	$132,801	$132,634	$140,308	$140,267	$142,274
Median Family Income (% of US Median)	212.2%	203.5%	215.5%	209.4%	209.4%
Finances					
Operating Revenue ($000)	$109,304	$110,639	$115,438	$127,053	$117,977
Fund Balance ($000)	$120,682	$132,658	$132,042	$132,423	$161,264
Cash Balance ($000)	$84,191	$91,736	$93,040	$92,835	$124,826
Fund Balance as a % of Revenues	110.4%	119.9%	114.4%	104.2%	136.7%
Cash Balance as a % of Revenues	77.0%	82.9%	80.6%	73.1%	105.8%
Debt/Pensions					
Net Direct Debt ($000)	$138,510	$157,935	$170,456	$159,032	$174,865
3-Year Average of Moody's ANPL ($000)	$151,681	$153,071	$163,180	$173,717	$189,640
Net Direct Debt / Full Value (%)	2.4%	2.7%	2.7%	2.4%	2.6%
Net Direct Debt / Operating Revenues (x)	1.3x	1.4x	1.5x	1.3x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.6%	2.6%	2.6%	2.7%	2.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.4x	1.4x	1.4x	1.6x

Sources: Moody's Investors Service, US Census Bureau, City of Dublin audited financial statements

Profile

The City of Dublin is located approximately seventeen miles northwest of Columbus. The city operates under a council-manager form of government and provides a variety of municipal services, including public safety, parks and basic utilities to a population of approximately 44,000 residents.

Detailed credit considerations

Economy and tax base: affluent and growing Columbus suburb

Dublin's economic recovery from the coronavirus pandemic will likely be stronger than most Ohio (Aa1 stable) cities given its very close ties to the Columbus metro area as well as its own expanding residential and commercial base. The city also benefits from an educated populace which leads to above-average economic mobility and increases the city's attractiveness to new business development. Additionally, 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. Management reports that demand for office space in the city remains high as shown by high rental rates and relatively low vacancy. As of June 2021 of the city's unemployment rate of 4.9% was below the national rate of 6.1%.

In addition to business activity the city's tax base will benefit from a hot residential housing market that has been positively impacted by the pandemic. The property tax base has grown at an average annual rate of 5.3% over the past five years, bringing full valuation to a high of $7.5 billion. The city is primarily residential (79% 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 has grown 6% since 2010 and is likely to continue growing at a moderate pace because of ongoing development.

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

Dublin's financial position is likely to remain very healthy given its robust operating fund balance and liquidity, broad income tax base, and capable budgetary management. The city has posted two consecutive general fund surpluses, including adding $9.4 million to its year-end fund balance in fiscal 2020. The positive operating performance was primarily attributed to a significant reduction in general fund spending combined with better than anticipated income tax collections. The city closed that year with a modified accrual GAAP-basis available general fund balance of $71.5 million, equal to an ample 95.5% of general fund revenue. With general fund reserves well in excess of the city's formal fund balance policy of maintaining a minimum of 50% of annual general fund expenditures the city intends to spend down a portion of its fund balance in fiscal 2021 to support capital projects, as well as special revenue funds impacted by COVID-19, such as its recreation and hotel funds.

City operations are primarily supported by its 2% permanent income tax on all residents and workers in the city. In fiscal 2020 its income tax collections accounted for nearly 90% of general fund revenue and 77% of total operating revenue.[1] Income tax collections proved mostly resilient in fiscal 2020 despite economic impacts from COVID-19, with total collections falling by a modest 1.2%. Management has conservatively budgeted collections to decrease by 2.2% further in fiscal 2021. However, the city has a history of positive budget-to-actual performance and fiscal 2021 collections through July are up 11.7% as compared the previous year.

Liquidity

The city closed fiscal 2020 with an operating net cash balance of $124.8 million, or a strong 105.8% of combined operating revenue. Most of the city's cash position, or $72.7 million, was held in the general fund, with another $40.2 million in the capital improvements tax fund. We expect the city's liquidity to decrease moderately by the close of fiscal 2021 given management's plan spend down of excess reserves for revenue replacement of special revenue funds and for one-time capital projects. Supplementing the city's near term liquidity is its receipt of approximately $7.7 million in COVID-related stimulus funding which it will look expend by the close of fiscal 2024.

Debt, pensions, and OPEB: above average debt burden; high pension burden

The city's above-average leverage is its primary credit challenge relative to its peers in the Aaa ratings category. Net direct debt currently stands at an elevated 2.3% of full value and 1.5x operating revenue. 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) revenue, encompassing roughly $240 million in projects over the five year period. City officials report the potential of moderate debt issuances over the next twelve months, though the city may consider cash financing the projects with resources on hand.

The city's pension burden is also above-average. Dublin's three-year average Moody's adjusted net pension liability (ANPL), which incorporates adjustments we make to reported pension data, through fiscal 2020 stands at 2.5% of full valuation and 1.6x fiscal 2020 operating fund revenue. In addition to its pension burden the city carries $27.6 million in adjusted net OPEB liabilities. Fixed costs, inclusive of debt service and retirement plan contributions, consumed a moderate at 19.3% of fiscal 2020 operating fund revenue.

Legal security

The city's GOLT bonds are secured by its full faith and credit and pledge, along with its ability to levy ad valorem property taxes subject to the statutory ten-mill limitation defined in Ohio law.

Debt service on the nontax revenue bonds is secured by nontax revenue. The bonds contain a satisfactory additional bonds test, requiring a minimum of 2.0 times debt service coverage before additional bonds can be issued.

Debt structure

All of the city's outstanding debt is fixed rate and roughly 60% of principal is scheduled to be retired within ten years. The city's outstanding debt primarily consists of $143.7 million in GOLT bonds and $30.3 million in nontax revenue bonds. The city pays its GOLT debt primarily from income tax revenue while debt service on nontax revenue bonds is paid from charges for services, fees, PILOT payments, and intergovernmental revenue. Nontax revenue collections will continue to provide ample coverage of annual debt service through final maturity. Maximum annual debt service (MADS) on all nontax revenue obligations is $2.1 million.

Debt-related derivatives

The city is not party to any derivative 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. Despite the flexibility to contain the plan's liabilities, Dublin's exposure to the two plans will likely be a long term credit drag relative to its highly rated peers who participate in either stronger funded defined benefit pension plans or those who offer only defined contribution plans.

ESG considerations

Environmental

Environmental considerations do not materially factor into the city's credit profile. Based on data from Moody's affiliate, Four Twenty Seven, Franklin County (Aaa stable) has medium water stress exposure, but above average heat stress and extreme rainfall exposure relative to counties nationally. However, we do not anticipate environmental, climate, or weather related events to materially impact the city's operations or overall credit profile for the foreseeable future. Dublin operates water and sewer proprietary funds which are both connected to the City of Columbus water and sewer systems, which provides supply, treatment and distribution services.

Social

Social considerations that factor into the city's credit profile include its socioeconomic and demographic characteristics and trends, along with resident access to basic services. The city's wealth and income metrics are significantly above medians for the US city sector. Full value per capita currently stands at $162,000 and is on the rise because of valuation growth, while its median family income is 209% of the US median. In addition to its favorably proximity to the state capital and large local economy, the city's public school district plays a material role in anchoring the tax base. The Dublin City School District (Aa1) has a strong credit profile and is well regarded for its academics. City residents have ready access to basic services, housing, healthcare, higher education, and cultural institutions throughout the greater Columbus metropolitan area.

Governance

Governance is a key credit consideration for all local government issuers. Ohio cities have an Institutional Framework score of “A”, which is moderate. The sector's major revenue source, income tax, is subject to a 1.0% cap that can be overridden with voter approval only. Increases in property taxes also generally require voter approval. Revenue and expenditures tend to be predictable.

The city's history of strong and stable fund balances reflects management's conservative budgeting practices. The city routinely outperforms its projections for income tax revenue and spends less than budgeted. Management maintains a comprehensive five-year capital improvement plan, with a large portion of funding available from annual revenue and designated reserves. Management recently adopted a formal debt policy to support continued borrowing, designating 60% of the capital fund's income taxes for debt service.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$7,528,194	Aa
Full Value Per Capita	$161,900	Aaa
Median Family Income (% of US Median)	209.4%	Aaa
Notching Adjustments:[2]		
Other Scorecard Adjustment Related to Economy/Tax Base: Substantially larger daytime population which expands the city's revenue base.		Up
Finances (30%)		
Fund Balance as a % of Revenues	136.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	27.7%	Aaa
Cash Balance as a % of Revenues	105.8%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	27.3%	Aaa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.05x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.3%	A
Net Direct Debt / Operating Revenues (x)	1.5x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.5%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Sources: Moody's Investors Service, US Census Bureau, City of Dublin audited financial statements

Endnotes

1 We include the following in our calculations: general, capital improvements tax, recreation, swimming pool, hotel/motel, safety, and debt service funds.

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