S&P Global Ratings

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Summary:

Dublin, Ohio; General Obligation

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Summary:

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Credit Profile		
US$16.23 mil GO (ltd tax) various purp imp and rfdg bnds ser 2021 dtd 10/05/2021 due 12/01/2041		
Long Term Rating	AAA/Stable	New
Dublin GO (ltd tax) various purp bnds		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Dublin, Ohio's series 2021 $16.23 million limited-tax general obligation (GO) 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 state's 10-mill limitation secure the bonds. We rate the limited-tax GO debt at the same level as our view of Dublin's general creditworthiness, as reflected by an unlimited-tax GO pledge. The city will use series 2021 to refund existing obligations for interest-cost savings; a new money portion of $1.5 million will finance sewer improvements.

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, 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.

Credit overview

In our view, key credit strengths supporting the 'AAA' rating are Dublin's status as a desirable suburb within the fast-growing Columbus metropolitan statistical area (MSA); the city's commitment to maintaining a large and diverse employment base, which supports a healthy income tax stream; and Dublin's robust financial policy framework.

In our opinion, the recent loss of several large businesses in the city has served as a stress test to Dublin's credit quality. Despite the loss of these income tax generators, the city has maintained a very strong financial profile, which we believe reflects its credit strengths and indicates that Dublin can withstand future pressures while maintaining the rating. The city continues to use 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 elevated, we note this reflects the city's growth and development. In our opinion, Dublin's growing tax base, extremely strong reserve position, and formalized debt policy partially mitigate the credit downsides of the city's leverage position. While pension costs are likely to escalate given certain plan assumptions, we believe costs are manageable and that Dublin is well positioned to incorporate increases within its budget. Overall, we anticipate that the city's credit quality will remain stable.

The rating reflects our view of Dublin's:

- 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 results that we expect could weaken in the near term relative to fiscal 2020, which closed with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 99% of operating expenditures;
- Very strong liquidity, with total government available cash at 127.7% of total governmental fund expenditures and 8.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 15.5% of expenditures and net direct debt that is 149.8% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We view the city's reliance on income taxes from commuters as an emerging social risk given that the COVID-19 pandemic has forced many to shift to working from home. In response, the state approved emergency legislation that temporarily allowed municipalities to continue to collect income taxes as if employees were working from their offices. This legislation expired July 18, 2021.

In addition, the state legislature recently adopted a budget (subject to approval by the governor) that includes a provision that will allow workers to seek income tax refunds for tax year 2021 if they were working remotely because of the pandemic. (It does not include tax year 2020.) The effect of the refunds on the city's budget likely won't be known until 2022, when tax returns are filed, though we would view it more as a one-time event risk that would likely be absorbed with stimulus funding. However, there is also longer-term risk that some of these workers could become permanent telecommuters, which could shift the future collection of income taxes from Dublin to the municipalities in which these workers reside. Somewhat mitigating the long-term risk, in our view, is that many of city's largest employers are in the health care and science sectors, where we see less risk that these workers would become permanent telecommuters. However, we believe that certain sectors, particularly business and professional services, are more susceptible to a permanent shift to telecommuting. Overall, there is still significant uncertainty about how these trends will affect Dublin's income tax revenues; income tax collections have not been affected so far. We will monitor these trends and could take a rating action in the future if we come to believe the city's credit quality is likely to be affected.

We believe that the city's ESG risks are in line with those of the sector. Dublin has taken steps to mitigate exposure to cybersecurity, and its location does not leave it overexposed to extreme weather events or long-term changes in climate trends.

Stable Outlook

Downside scenario

The stable outlook reflects our view of the city's high reserves and liquidity position, growing economy, and supportive financial management practices. As a result, we do not anticipate changing the rating over our two-year outlook horizon. Dublin's participation in the broad and diverse Columbus MSA lends additional rating stability. Although unlikely, we could lower the rating in an event the city's employment base declines, leading to ongoing budgetary pressure and a material reduction in reserves.

Credit Opinion

Very strong economy

We consider Dublin's economy very strong. The city, with an estimated population of 49,688, is in Delaware, Franklin, and Union counties in the Columbus MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 173% of the national level and per capita market value of $151,509. Overall, the city's market value grew by 13.8% in 2020 to $7.5 billion in 2021. The weight-averaged unemployment rate of the counties was 7.1% in 2020.

Dublin is directly northwest of and adjacent to 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 Dublin with a robust and diverse income tax base.

The city's largest business sectors include information technology, biomedical, and health care services, as well as business support services. Dublin is also home to various corporate headquarters, including Cardinal Health and The Wendy's Co. The city's top 10 employers accounted for approximately one-quarter of total income tax collections in 2020.

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 approximately 600, had announced plans to reduce additional personnel in 2020 but maintain its headquarters in the city.) Because of these recent changes, income tax revenue dropped 2.75% in 2017. However, there have been gains among other employers and rising wages, along with income tax collections, including withholding collections, which increased by 0.7% in 2018. Higher net profits, along with higher withholding collections, resulted in income tax revenue growth of 5.9% in 2019. Income tax collections were down 1.2% in 2020 compared with 2019 but in line with 2018 collections given that collections in 2019 were higher than normal. Income tax collections are expected to improve based on the current collection trends.

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. Several key developments include the Ohio State University Wexner Medical Center, a large outpatient care center estimated to generate 350 jobs to open in 2022; a significant expansion at Vadata Inc.'s data center and research and development facilities; and participation in the U.S. 33 Smart Mobility Corridor, an inclusive testing area for autonomous vehicles and "smart" transportation infrastructure.

The city continues to invest in infrastructure and use economic tools to spur development, which we believe should contribute to market value growth. Dublin has 40 tax increment districts that contribute about $15 million annually to the city's coffers.

Strong management

We view Dublin'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.

Highlights include:

- 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.
- 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.
- Dublin has a comprehensive five-year rolling capital improvement plan that identifies estimated costs and funding sources. The plan is approved by the city council.
- The city has a formal investment policy, and the council sees investment holdings and earnings monthly.
- Dublin's debt policy is well defined and more restrictive compared to state guidelines.
- The city carries a formal reserve policy that requires a minimum general fund balance equal to 50% of expenditures. This high level was chosen in part to mitigate the effects from potential employment losses. As per the policy, if the balance exceeds 75%, 25% of the excess amount will be transferred for capital improvements.

Strong budgetary performance

Dublin's budgetary performance is strong, in our opinion. The city had operating surpluses of 11.1% of expenditures in the general fund and 6.1% across all governmental funds in fiscal 2020. While we expect Dublin to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

As part of our analysis, we combined the city's safety fund with the general fund, as this fund represents Dublin's police department, which we view as a core operating service. The general fund annually subsidizes this fund through a transfer. Our analysis also adjusts for one-time capital expenditures, such as land acquisitions, as well as expenditures that were financed with bond proceeds, which we view as non-operating items.

The city levies a 2% income tax on salaries and wages earned by workers employed in Dublin and on business profits. In 2020, income tax revenue accounted for 90% of general fund revenue. The city's conservative budgeting practices also contribute to its track record of strong financial performance. Actual general fund expenditures average about 85% of the budgeted amount, while revenue, including income tax revenue, outperforms budgeted amounts. The city does have an ability to adjust taxes with voter approval.

Officials planned to use $14 million of accumulated reserves to support a land acquisition program in 2021; operations are expected to be balanced. Officials forecast to end fiscal 2022 with essentially break-even results; however, they report this is a conservative estimate.

Very strong budgetary flexibility

Dublin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 99% of operating expenditures, or $71.3 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 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. Reserves are expected to stabilize at $57 million following an advancement for land acquisition. The city's income tax rate cannot be increased without voter approval. Dublin 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, although 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 127.7% of total governmental fund expenditures and 8.2x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

We have adjusted cash to exclude restricted cash, but the city's liquidity remains very strong. Dublin 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. Most of the city's investments are in federal agency securities and money market funds, which we do not 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.

Very weak debt and contingent liability profile

In our view, Dublin's debt and contingent liability profile is very weak. Total governmental fund debt service is 15.5% of total governmental fund expenditures, and net direct debt is 149.8% of total governmental fund revenue.

Officials do not have definitive debt issuance plans. We believe the city's debt policy and strong financial position should help maintain manageable debt levels. The 25% allocation of income tax revenue to Dublin's capital improvement fund, which is used for debt service, cannot be changed without voter approval.

In 2015, Dublin 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 the city's nontax revenue, Dublin 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 participates in the following plans for pension and other postemployment benefits (OPEBs):

- Ohio Police and Fire Pension Fund (OP&F): 71% pension funded ratio; and
- Ohio Public Employees Retirement System (OPERS): 87% pension funded.

We do not view OPEB liabilities under these plans as a significant source of credit pressure given recent transitions to stipend-based benefits.

Dublin's required pension and actual OPEB contributions totaled 4% of total governmental fund expenditures in 2020. The city made its full annual required pension contribution.

OPERS administers three separate pension plans: traditional, combined, and member directed. The traditional pension plan is a cost-sharing, multiple-employer, defined-benefit pension plan. Full funding should occur within a closed 18 years. With a 7.2% discount, we see some cost-escalation risk due to market volatility, as well as cost deferrals due to a static-mortality assumption and the requirement to maintain payroll growth assumption. On an accrual basis, the city pays 100% of its annual determined contribution for these plans as it has done so during the past three fiscal years.

OP&F is a cost-sharing, multiple-employer, defined-benefit pension plan. The plan did not make funding progress during the most recent year because contributions fell well short of static funding. With an 8% discount, we see significant market-volatility risk and possible cost deferrals due to an outdated static-mortality assumption. The primary risk of cost escalation is due to the deferral of contributions from nonactuarial funding. (For further information, please see the article, titled "Pension Spotlight: Ohio," published Jan. 7, 2021.)

Strong institutional framework

The institutional framework score for Ohio municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments