MOODY'S INVESTORS SERVICE

CREDIT OPINION
28 June 2018

Rate this Research

Contacts

Francis A Mamo +1.212.553.3826
Analyst
frank.mamo@moodys.com

Matthew Butler +1.312.706.9970
VP-Senior Analyst
matthew.butler@moodys.com

Westerville (City of) OH

Update to credit analysis

Summary

The City of Westerville (Aaa) is an above average income suburb of Columbus (Aaa stable) with a very strong financial position. The city continues to see steady growth in its tax base, as well as key revenue sources, given expansion of its own economy and growth in the Columbus metropolitan area. Fund balance and liquidity, relative to revenue, are far higher than most local governments and enhance the city's flexibility to address fluctuations in economically sensitive income taxes. The city's economic and financial strengths mitigate its high debt and pension burdens, which will continue to exceed those of rating peers.

Credit strengths

» Sizeable tax base within the Columbus metropolitan area

» Steady revenue growth

» Strong fund balance and liquidity mitigate dependence on economically sensitive income taxes

Credit challenges

» Debt and pension burdens are high for the rating category

» Dependence on economically sensitive income taxes

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to a downgrade

» Significant declines in financial reserves

» Growth in the city's debt or pension burdens

Key indicators

Exhibit 1

Westerville (City of) OH	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$2,897,093	$2,916,740	$2,949,973	$3,022,061	$3,006,221
Population	36,415	36,778	37,101	37,540	38,089
Full Value Per Capita	$79,558	$79,307	$79,512	$80,502	$78,926
Median Family Income (% of US Median)	153.7%	153.7%	157.0%	155.0%	155.3%
Finances					
Operating Revenue ($000)	$55,230	$59,833	$61,289	$63,071	$65,912
Fund Balance ($000)	$37,725	$40,661	$39,296	$40,907	$39,181
Cash Balance ($000)	$36,417	$38,028	$39,796	$37,429	$39,362
Fund Balance as a % of Revenues	68.3%	68.0%	64.1%	64.9%	59.4%
Cash Balance as a % of Revenues	65.9%	63.6%	64.9%	59.3%	59.7%
Debt/Pensions					
Net Direct Debt ($000)	$34,074	$48,551	$59,085	$62,874	$51,745
3-Year Average of Moody's ANPL ($000)	$153,004	$177,496	$182,172	$177,166	$179,819
Net Direct Debt / Full Value (%)	1.2%	1.7%	2.0%	2.1%	1.7%
Net Direct Debt / Operating Revenues (x)	0.6x	0.8x	1.0x	1.0x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	5.3%	6.1%	6.2%	5.9%	6.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.8x	3.0x	3.0x	2.8x	2.7x

Total full value was $3.4 billion as of 2017.
Source: Audited financial statements, Moody's Investors Service, U.S. Census Bureau

Profile

The City of Westerville is located in Franklin (Aaa stable) and Delaware (Aaa stable) counties, and serves an estimated population of 38,000.

Detailed credit considerations

Economy and tax base: large Columbus suburb with established commercial sector

The tax base and local economy will continue to derive strength from the city's ties to the expanding Columbus metropolitan area, which has supported development of a mature and strong business base within Westerville itself. Westerville remains in large part a residential bedroom community of Columbus. Fully valued at $3.4 billion as of 2017, the city's tax base grew at an average annual rate of 3% over the past five years due to a mix of appreciating property values and new commercial development. Resident incomes are strong, with median family income equal to 155% of the US median.

The region's economy is diverse, with major employers crossing the health care, higher education, government, and financial services sectors. The city's own unemployment rate, as of March 2018, was low at 2.9% and total employment has grown for six consecutive years. Top employers in the city include JPMorgan Chase & Co. (A3 stable), Mount Carmel Health Systems, and Excel Logistics. Close proximity to Columbus, which itself continues to realize expansion of its very diverse base, will support economic stability in suburbs such as Westerville.

Financial operations and reserves: very strong financial reserves

The city's financial position will remain strong. The city recorded eight consecutive operating surpluses through fiscal 2013, after which it began to transfer excess fund balance and liquidity out of its general fund to finance non-recurring capital investments. While audited financial statements are not yet available for fiscal 2017, unaudited results show an operating surplus that brought available fund balance to $44.1 million, or 63% of revenue. In fiscal 2018, officials expect another year of surplus operations and growing reserves.

Local income taxes make up approximately half of annual revenue. The city's income tax rate is 2.0%, in line with the median income tax rate for other municipalities in Franklin and Delaware counties (2.0%). The city dedicates 0.25% of its 2.0% income tax to parks and recreation purposes. Over the past five years, income taxes grew at a compound annual rate of 3.8%.

LIQUIDITY

The cash balance across all operating funds was $39.4 million, or 60% of annual revenue, at the close of fiscal 2016.[1] Unaudited results show cash growing to $43.5 million, or 62% of revenue in fiscal 2017.

Debt and pensions: heightened debt and pension burden will remain a credit challenge

The city's debt and pension burdens are high compared to Aaa rated cities. Following an upcoming sale, the city's net direct debt will total $75.4 million, or 2.2% of full value and 1.1x operating revenue. Given minimal additional borrowing plans, the city's debt burden is expected to moderate moving forward. Moody's three-year average adjusted net pension liability (ANPL) for the city is 5.8% of full value and 2.8x operating revenue. The ANPL is our measure of a local government's pension burden that uses a market-based interest rate to value accrued pension liabilities. Fixed costs, consisting of annual debt service and retirement contributions, consumed approximately 20% of operating revenue in fiscal 2016. The city's debt burden is net of self-supporting general obligation debt paid from net revenue of the city's utilities.

DEBT STRUCTURE

All of the city's debt is fixed rate and approximately two-thirds of principal is scheduled to be repaid within 10 years.

DEBT-RELATED DERIVATIVES

The city has no derivatives.

PENSIONS AND OPEB

City employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). In 2012, the state legislature adopted benefit reforms for all Ohio cost-sharing plans that highlighted the state's flexible legal framework surrounding public pension benefits. Ohio statute establishes a 30-year target for amortizing unfunded liabilities of all statewide cost-sharing plans. If plan actuaries determine current contribution rates and actuarial assumptions result in an amortization period exceeding 30 years, the pension fund must submit a plan for adjusting contributions or benefits to meet the 30-year requirement. The 2012 reforms amended annual cost-of-living adjustments (COLAs) for retirees, resulting in a considerable decline in reported unfunded liabilities in 2013.

Notwithstanding the positive impact of the 2012 reforms, unfunded liabilities of OPERS and OP&F remain high. The combined Moody's ANPL of the two plans grew 6.4% from 2016 to 2017. Further, statewide employer contributions to both plans fell below amounts necessary to forestall growth in reported net pension liabilities assuming other plan assumptions hold, that is, tread water.[2] Ohio statutes establish local government retirement plan contributions as a share of annual payroll. In fiscal 2017 those contributions were 83% and 87% of the amounts needed to tread water in OPERS and OP&F, respectively.

Management and governance: moderate institutional framework enhanced by strong reserve policy

The city's strong fund balance policies and multiyear financial planning enhance flexibility to respond to fluctuations in income taxes while addressing local capital needs. City policy mandates a general fund balance of no less than 50% of operating expenditures, ensuring the city retains a very robust financial cushion. This is a very strong fund balance floor, even among Ohio cities, and mitigates risk associated with dependence on income taxes, which is factored in our institutional framework assessment of Ohio local governments.

Ohio cities have an institutional framework score of "A," or moderate. The volatility of income taxes, typically the primary source of operating revenue, results in low revenue predictability. Cities also rely on voter-approved property taxes to support activities such as public safety and street maintenance. Cities have a moderate ability to raise revenues, as voter authorization is necessary to raise income tax rates above 1%. Cities can also increase property tax rates above their charter caps with voter authorization. Expenditures mostly consist of personnel costs, which are moderately predictable. However, these costs tend to be impacted by labor agreements, resulting in moderate expenditure reduction ability.

Endnotes

1 The city's operating funds include the general, debt service, fire, parks and recreation operating, and parks and recreation income tax funds.

2 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.

REPORT NUMBER 1131710

CLIENT SERVICES

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