Summary:
Westerville, Ohio; General Obligation

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Credit Profile

| US$20.0 mil GO (ltd tax) cap facs bnds ser 2018 due 12/01/2037 |
|-----------------|-----------------|-----------------|
| Long Term Rating | AAA/Stable      | New             |
| Westerville GO   |                 |                 |
| Long Term Rating | AAA/Stable      | Affirmed        |

Rationale

S&P Global Ratings has assigned its 'AAA' long-term rating to Westerville, Ohio's series 2018 general obligation (GO) capital facilities bonds. At the same time, we affirmed our 'AAA' long-term rating on the city's existing GO debt. The outlook is stable.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes within the state's 10-mill limitation secure the bonds. The city expects that debt charges on certain portions of the bonds will be paid from municipal income tax revenues. We rate the limited-tax GO debt at the same level as our view of the city's general creditworthiness, given that ad valorem taxes are collected from the city's entire tax base and because of a lack of limitations on the fungibility of resources available for debt service.

It is our understanding that bond proceeds will be used to finance the costs of expanding and improving the Westerville Community Center.

Westerville'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 Ratings Direct, U.S. local governments are considered to have moderate sensitivity 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.

The long-term rating reflects our assessment of the following factors for the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- 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 74% of operating expenditures;
- Very strong liquidity, with total government available cash at 147.4% of total governmental fund expenditures and 18.6x governmental debt service, and access to external liquidity we consider strong;
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- Very strong debt and contingent liability position, with debt service carrying charges at 7.9% of expenditures and net direct debt that is 56.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Strong economy

We consider Westerville's economy strong. The city, with an estimated population of 39,357, is located in Delaware and Franklin counties in the Columbus, Ohio MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 143% of the national level and per capita market value of $95,616. Overall, the city's market value grew by 25.3% over the past year to $3.8 billion in 2018. The weight-averaged unemployment rate of the counties was 3.9% in 2017.

The city's economic development is continuous with officials attracting new companies in well-established areas where the top 10 employers have not changed much over the last decade. JP Morgan Chase, Mount Carmel Health System, and Excel Logistics continue to be the leading employers and tax payers.

Community plans, private investments, collaboration with nearby municipalities and other strategic plans have enabled the city to grow its income tax base while continuing to look forward with economic development tools that should enable the city to sustain its major taxpayers while attracting future participants. We included the market value in tax increment financing (TIF) districts in our market value figure.

Residents also have additional employment opportunities in Columbus, which is located about 15 miles south. Management anticipates small increases in market value during the next few years, given recent and ongoing development.

Officials have stated that home values have increased about 31% since 2012 and the overall economy for central Ohio is still improving as evidenced by an increase of income tax revenues received for fiscal 2017 by 6% over 2016.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city uses two years of historical trends and outside sources, particularly those familiar with the area's economic development, to make the revenue and expenditure assumptions in its budget. Management provides monthly reports on budget-to-actual performance to the council. The city has a five-year financial plan for the general fund that is updated annually and shared with the council. It also has a five-year capital improvement plan that includes costs and funding sources, and is updated annually.

The city has its own investment policy but does not regularly report to the council on its investment holdings. The city's debt management policy includes some guidelines for amortization schedules, and how much income tax revenue can be committed to debt service. The city's reserve policy requires a minimum general fund balance of 50% of expenditures and operating transfers out. Management considered that level an adequate cushion if a significant
economic downturn were to affect revenue.

**Strong budgetary performance**

Westerville's budgetary performance is strong in our opinion. The city had operating surpluses of 6.3% of expenditures in the general fund and of 26.8% across all governmental funds in fiscal 2017. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term.

Our calculations include adjustments for capital expenses supported by debt proceeds, grants, transfers from TIF funds, and recurring transfers to help support total governmental fund operations. We do not treat the transfer out of the general fund to the parks and recreation fund as an added expense of the general fund as it collects the income tax receipts and then passes on the allotted amounts to this fund.

The city's budget typically calls for a use of reserves (on a cash basis) each year and we have witnessed actual results outperform what has been anticipated. Officials expect to adopt a fiscal 2019 (Dec. 31) budget that will be similar to those of the past few years, which have called for a use of reserves of about 7% of operating expenses. For the past few years the general fund has provided advances to two capital projects and reimbursements are expected during fiscal years 2018 and 2019.

For fiscal 2018, the budget is performing as expected with income tax collections through May 2018 up 1.62% from the same five-month period in fiscal 2017. We expect the city to outperform its budget for fiscal 2018. At this point in the year since we don't know if the general fund surplus will be greater than 5% (which occurred in 2017) we have applied a qualitative adjustment to reflect this, not that we expect actual structural deterioration for fiscal 2018.

Fiscal 2017 general fund results, which currently are unaudited but expected to be in its final form, experienced a slight surplus on a generally accepted accounting principles (GAAP) basis after including debt proceeds and transfers out. For our calculations, we have included the consistent sale of assets into our calculations for the general fund. Fiscal 2017 results benefitted from an increase of nearly 6% of income tax revenues while the city was also able to save on its expenditures as it typically does each year. We have witnessed actual results for projections on income tax revenues to be better than what the city typically budgets.

According to the 2017 audit, municipal income taxes made up 75% of total general fund revenues while property tax revenues and intergovernmental generated about 7% each, respectively. We expect these revenue streams to remain stable over the next two years.

The city levies and collects a 2% income tax on all income earned within the city. Of this amount, 1.35% is placed into the general fund, 0.25% is placed into the parks and recreation income tax allocation special revenue fund, and 0.40% was placed into the general capital improvement capital projects fund. The tax is applied to gross salaries, wages and other personal services compensation, as well as net income of for-profit organizations conducting business in the city. In addition, residents of the city are required to pay municipal income tax on income earned outside the city; however, a credit is allowed for income taxes paid to other municipalities.

**Very strong budgetary flexibility**

Westerville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 74% of operating expenditures, or $30.5 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.

We expect the city's budgetary flexibility to remain very strong as the city does not anticipate any out of the ordinary budgetary pressures for fiscal 2019 and we anticipate it will add to its reserves for fiscal 2018.

**Very strong liquidity**
In our opinion, Westerville's liquidity is very strong, with total government available cash at 147.4% of total governmental fund expenditures and 18.6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

Management anticipates stable cash levels, and we anticipate the city will maintain very strong liquidity. The city has issued GO debt frequently during the past few years and has issued for the past 20 years. At fiscal year-end 2017, the city's investments were primarily in what we consider nonaggressive investments, such as federal home loan mortgage corporation notes, federal national mortgage association notes, and federal home loan bank bonds.

Management reports no contingent liquidity risks from financial instruments with payment provisions that change upon certain events. We understand the city's only privately placed debt is the 2014 electric revenue refunding bonds, and those bondholders have no recourse to the city's general funds or the right to accelerate the debt following certain events.

**Very strong debt and contingent liability profile**
In our view, Westerville's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.9% of total governmental fund expenditures, and net direct debt is 56.9% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, which is in our view a positive credit factor.

It is our understanding that there are no GO debt plans over the next two years. The city may have some revenue supported bonds issued over the next few years that could total about $4 million.

Westerville's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 9.0% of total governmental fund expenditures in 2017. The city made its full annual required pension contribution in 2017.

The city participates in the Ohio Public Employees Retirement System (OPERS) for pension and other postemployment benefits (OPEBs). 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. The member-directed plan is a defined contribution plan and the combined plan is a cost-sharing, multiple-employer defined benefit pension plan with defined contribution features. (Substantially all city employees are part of the traditional pension plan). On an accrual basis the city annually pays 100% of its actuarial determined contribution for these plans and has done so the last three years.

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

In accordance with Government Accounting Standards Board (GASB) Statement No. 68 standards, employers with
benefits administered through cost-sharing multiemployer pension plans like 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 2017 were $35 million and $45.4 million, respectively. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 77.3% for OPERS and 68.4% for OP&F.

In our opinion, the funded ratios for the two plans are inflated, because of what we consider optimistic actuarial assumptions, such as above-average discount rates. The underfunded pensions could likely lead to an increase in contributions if not adequately addressed by the state. In this scenario, we believe Westerville 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 is strong.

**Outlook**

The stable outlook reflects our anticipation that the city will maintain very strong liquidity and very high reserves in line with its reserve policy of 50% of expenditures. We also anticipate the city will continue to benefit from very strong management conditions by continuing its current financial management practices. The city's participation in the broad and diverse Columbus MSA lends stability to the rating. Although unexpected, the city's rating could be pressured if there was a material weakening of the city's budgetary performance or debt and contingent liability profile.

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<tr>
<th>Ratings Detail (As Of June 28, 2018)</th>
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<td>Westerville cap fac improv &amp; rfdg bnds ser 2012A dtd 06/27/2012 due 12/01/2013-2022 2024 2028 2032</td>
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<td><strong>Long Term Rating</strong></td>
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<td>Westerville cap fac rfdg bnds</td>
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<td><strong>Long Term Rating</strong></td>
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<td>Westerville GO (ltd tax) cap facs bnds</td>
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<td><strong>Long Term Rating</strong></td>
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Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.