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Summary:

Worthington, Ohio; General Obligation

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Credit Profile		
US$9.985 mil various purpose bnds (GO - ltd tax) ser 2021 due 12/01/2041		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Worthington, Ohio's series 2021 limited-tax general obligation (GO) bonds, with a preliminary par amount of $9.985 million. The outlook is stable.

The series 2021 GO bonds are unvoted, limited GO debt secured by the city's full faith and credit and an agreement to levy ad valorem property taxes within the state's 10-mill limitation. We rate the city's limited-tax GO debt at the same level as our view of its general creditworthiness given the full-faith-and-credit pledge and the flexibility of the city's general resources to pay debt service. The city anticipates using income tax revenue allocated to its capital improvement fund (20% of income tax receipts per city policy) to finance debt service on the 2021 bonds, limiting the impact on the operating budget preserving property taxing flexibility. We believe the city maintains sufficient flexibility within its statutory property tax rate limit to support debt service, if needed.

2021 GO bond proceeds will take out the city's 2020 bond anticipation notes long term and finance various capital improvement projects.

The city GO rating is eligible to be higher than the sovereign rating because we believe the city can maintain positive credit characteristics relative to the U.S. sovereign in a stress scenario. Under our criteria "Ratings Above the Sovereign: Corporate and Government Ratings--Methodologies and Assumptions," published Nov. 19, 2013, on RatingsDirect, the city has predominantly locally derived revenue with independent taxing authority and independent treasury management from the federal government.

Credit overview

Worthington's credit quality is supported by its robust economic profile, with comparatively high incomes and wealth levels, diverse employment base, inclusion within the Columbus metro area, and proximity to Ohio State University. A growing tax base and adherence to comprehensive financial management practices have contributed to a very strong financial profile, including consistent operating performance, very strong reserves, and a manageable debt and retirement liability position. While the pandemic affected the local labor market, employment and tax bases fared better than national averages. The city depends on income taxes for the majority of operating revenue, though collections have remained resilient despite the pandemic. The 'AAA' rating incorporates our view that the city's financial resiliency and proactive budgetary management would persist under more general economic declines. The stable outlook reflects our view that the city's financial position will remain very strong, partly supported by federal stimulus and a local economy that will continue to grow as pandemic-related pressures subside. For S&P Global

Economics' latest macroeconomic assessment, see the report "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, on RatingsDirect.

The 'AAA' long-term rating further reflects our view of the city's:

- Very 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, which closed with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 62% of operating expenditures;
- Very strong liquidity, with total government available cash at 73.6% of total governmental fund expenditures and 19.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 36.0% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

We view the city's partial reliance on income taxes from commuters as an emerging social risk given that the pandemic has accelerated remote working trends. Over time, should withholding taxes from commuters fall in a manner that offsets potential increases in collections from city residents who have the opportunity to work remotely, the city may face budgetary pressures. We view the city's environmental and governance factors as in line with the municipal sector as a whole.

Stable Outlook

Downside scenario

All else equal, we would consider a lower rating if the city realized an ongoing period of structural imbalance leading to material declines in available reserves or should rising pension costs or additional debt contribute to budgetary pressures.

Credit Opinion

Very strong economy

The city, with an estimated population of 14,804, is located just north of Columbus in Franklin County. The city benefits from employment access throughout the Columbus MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 160% of the national level and per capita market value of $145,537. The county's 2021 triennial valuation update contributed to property values increasing by nearly 15% to $2.2 billion. Reflecting broader economic development, property values increased 29% over the past five years.

The city's central location within the Columbus MSA and proximity along the area's major interstates support ongoing economic development and a diverse array of employment opportunities within the city itself. The city's comparatively large commercial footprint, including several corporate office parks and upscale retail centers, including its historic downtown, contributes to its daytime population increasing to nearly 35,000. Top employers include the city school district, several steel and materials-related manufacturers, and MedVet Inc. (a veterinary hospital system). The city is also home to a large number of small-to-midsize health and professional services companies. The city's largest office building remains vacant as one its largest employers, Anthem Blue Cross Blue Shield, relocated in 2018. While this somewhat limited growth in income tax collections, revenue growth remained positive, highlighting the depth of employment within the city. Major ongoing development projects include two large-scale mixed-use developments and a planned residential redevelopment.

At the onset of the pandemic the county unemployment rate peaked at 13.4% in April 2020, below state and national spikes. This is consistent with the county's unemployment historically trending below state and national averages. The county rate fell to 5.1% as of May 2021, in line with the state and below the U.S. Despite the pandemic, business and real estate investment activity remains in line with pre-pandemic levels. While county employment remains below pre-pandemic levels, particularly in leisure and hospitality, we anticipate that the labor recovery and strong economic development activity will continue.

In our view, the city's reliance on economically sensitive income taxes for general fund reserves remains a credit risk. The manageable impact of the pandemic-induced recession was partly attributable to the city's share of higher-wage employment and its relatively limited exposure to hospitality and tourism employment. However, we believe the city's income tax base remains exposed to variability from general economic cycles.

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 our view that financial practices are strong, well embedded, and likely sustainable.

The city has a comprehensive budgetary process incorporating institutionalized financial controls, an analysis of historical trends and macroeconomic conditions, and a long-term focus that considers financial projections and capital planning. The city provides monthly financial reports, including a summary analysis and historical and budget-to-actual comparisons. Budget amendments are made when needed. The city regularly updates five-year financial projections incorporating major operating and capital improvement funds. The projections are included in the city's annual budget. The city also maintains a five-year financial capital improvement plan that is updated annually. The city's investment and depository policy emphasizes preservation of capital, liquidity, and diversified holdings as an objective, limits maturities to five years, follows the state's statutes for allowable investment types, and requires quarterly reporting to the city council. The city's debt policy includes a variety of guidelines and best practices for issuing debt, does not allow for derivative products, and has limitations that follow statutes. The city's reserve policy requires its unencumbered general fund cash position, which we view as more conservative than fund balance, be greater than 35% of prior year expenditures, with a target of 35% to 50%. The policy also includes monitoring provisions and remedial actions if the policy is not met.

Strong budgetary performance

The city had surplus operating results in the general fund of 5.4% of expenditures, and slight surplus results across all governmental funds 0.5% in fiscal 2019. While we expect Worthington to have at least balanced operating results for fiscal years 2020 and 2021, we do not expect results to be as favorable as in 2019. Our assessment of the city's operating performance is adjusted to account for regularly occurring transfers and expenditures financed from debt proceeds.

The city has realized positive operating results since 2011 partly as a result of strong revenue growth, expenditure management, and conservative budgeting practices. As a continuation of this trend, the city added approximately $2 million to general fund reserves in fiscal 2020. Despite the pandemic, operating revenue was in line with the budget while cost saving measures led to a positive 20% expenditure variance relative to budget. The majority of savings were realized from furloughing certain part-time employees. Extraordinary dividends from the Ohio Bureau of Workers' Compensation of $2.4 million--benefiting many local governments in the state--aided the year's results.

The 2021 general budget generally holds revenue in line with 2020 revenue, while expenditures growth reflects a resumption of pre-pandemic trends leading to a budgeted use of $2.8 million in reserves. However, management reports that income tax collections (approximately 70% of general fund revenue) to date are up 15% over the budget. Should this variance hold up over the fiscal year, officials report that the year will end with at least balanced results. With payrolls throughout the metro area gradually improving, we believe the city will end positively compared with the budget. Despite an increase in unemployment in 2020 the city's income tax collections proved resilient, coming in slightly higher than 2019. The city's five-year general fund forecast highlights a modest use of reserves in each year through fiscal 2025, though the forecast assumes limited revenue growth. Given the city's track record of maintaining structural balance and proactive budgetary management, we anticipate that its budgetary performance assessment will remain strong.

Very strong budgetary flexibility

Worthington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 62% of operating expenditures, or $17.6 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.

With an available fund balance above 61% and projections highlighting cash reserves will remain above 40% through 2025, our view of the city's budgetary flexibility is likely to remain very strong over the medium term. This assessment is further supported by the city's financial projections. Additionally, we believe the city maintains modest revenue-raising flexibility within its unvoted property tax rate limit.

Very strong liquidity

With total government available cash at 73.6% of total governmental fund expenditures and 19.4x governmental debt service in 2019, we consider Worthington's liquidity position very strong. In our view, the city has ample access to external liquidity if necessary.

The majority of the city operating investments are maintained within certificates of deposit, the state investment pool, and short-term repurchase agreements collateralized by U.S. treasury and agency securities, which we do not consider aggressive. The city is not exposed to material contingencies or debt provisions that could pressure its liquidity position.

Very strong debt and contingent liability profile

In our view, Worthington's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 36.0% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor.

The city's near-term debt plans include approximately $15 million in new money that will likely be secured by tax increment revenue, limiting the potential impact to the operating budget.

Pension and other postemployment benefit (OPEB) liabilities

The city carries a moderate unfunded retirement liability, though pension and OPEB costs remain manageable relative to the budget. However, pension cost escalation is likely given plan assumptions and methods. OPEB costs are not a credit pressure.

Worthington participates in the following pension plans:

- Ohio Police and Fire Pension Fund (OP&F): 69.9% funded, with a proportionate share of the plan's net pension liability of $20.5 million as the latest valuation
- Ohio Public Employees Retirement System (OPERS): 82.4% funded, with a proportionate share of the plan's net pension liability of $10.4 million as of the latest valuation

Annual required pension contributions totaled 6.2% of total governmental fund expenditures in 2019, while OPEB contributions were 0.1%. Contributions did not meet our minimum funding progress metric, meaning liabilities and required contributions are likely to grow. This scenario is common under plans that use a level-percentage-of-pay amortization basis. OPEB costs will likely remain manageable given recent reforms that will limit liability growth. For more information on assumptions and methods of these plans that we view as risky, see our report "Pension Spotlight: Ohio," published Jan. 7, 2021.

Strong institutional framework

The institutional framework score for Ohio cities is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

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.