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Summary:

Delaware County, Ohio; General Obligation

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Summary:

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Credit Profile		
US$35.625 mil GO (ltd tax) various purp imp & rfdg bnds ser 2016 due 12/01/2045		
Long Term Rating	AAA/Stable	New
Delaware Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Delaware Cnty GO (unltd tax) cap facs rfdg bnds ser 2013 due 12/01/2025		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Delaware County, Ohio's series 2016 limited-tax general obligation (GO) various purpose improvement and refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the county's existing GO bonds. The outlook is stable.

A pledge of the county's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure its bonds. We believe the county possesses the financial stability necessary to sustain ratings on the limited-tax bonds equal to an unlimited-tax pledge. The county will use series 2016 bond proceeds to construct, furnish, and equip a county courthouse and to refund the county's series 2007 various purpose GO bonds for interest cost savings.

Delaware County's GO bonds are eligible to be rated above the sovereign because we believe the county 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 RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The county's GO pledge is the sole source of security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the county's operations. 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 county's financial flexibility is demonstrated by the very strong general fund balance as a percentage of expenditures, as well as very strong liquidity.

The 'AAA' rating reflects our assessment of the following factors for the county, specifically its:

- 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;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 29% of operating expenditures, and

an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash at 84.0% of total governmental fund expenditures and 20.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 4.1% of expenditures and net direct debt that is 70.2% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Delaware County, with an estimated population of 185,077, is located in the Columbus, Ohio MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 149% of the national level and per capita market value of $106,173. Overall, the county's market value grew by 4.1% over the past year to $19.7 billion in 2016. The county unemployment rate was 4.0% in 2014.

The county encompasses 459 square miles in central Ohio, directly north of Franklin County and the city of Columbus. The county is currently the fastest-growing county in the state by population. Included in the county's largest employers are JP Morgan Chase & Co. (9,947 employees), Kroger Co. (2,209), Olentangy School District (2,109), and county government (1,119). The county's property tax base includes a mixture of residential (81.8%), commercial (9.2%), and industrial (2.0%) properties. The county continues to invest in new infrastructure in order to keep pace with and spur new growth. Major road, commercial, and residential developments are ongoing within the county, and we believe they will contribute to further expansion in the county's property and sales tax bases.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that government officials might not formalize or monitor all of them on a regular basis.

We revised our assessment to good from standard because the county has recently implemented long-term financial forecasting.

Management uses five years of historical data to form revenue and expenditure assumptions and provides monthly reports to the board of commissioners on budget-to-actuals and investment holdings and earnings. The budget can be amended as needed. The county recently adopted a five-year general fund forecast, which is updated annually and shared with the board. The forecast incorporates a detailed set of assumptions. The county also has a five-year capital plan for road and bridge projects (with funding sources and cost estimates), which is also updated annually and shared with the board, and it is in the process of developing a long-term sewer plan. The county has a formal investment policy that mirrors state guidelines. According to officials, the county is in the process of formalizing debt and reserve policies. The reserve policy, although not yet adopted, calls for a general fund balance equal to 25% of prior-year revenue. This level provides a cushion against a somewhat uneven revenue stream.

Very strong budgetary performance

Delaware County's budgetary performance is very strong in our opinion. The county had operating surpluses of 11.7% of expenditures in the general fund and of 11.3% across all governmental funds in fiscal 2014.

On an unaudited cash basis of accounting, the county ended fiscal 2015 with a 1.3% surplus in the general fund. The 2016 budget reflects a $10.5 million drawdown in the general fund, all of which is for one-time capital projects. Without these one-time expenditures, the budget is operationally balanced.

Sales tax revenues were approximately 60% of the total general fund revenues for fiscal 2014 while charges for services and property taxes contributed 16% and 12%, respectively. The county levies a sales tax of 1.25%, and revenues from sales taxes have been stable with moderate increases after a drop in fiscal 2009. Management expects sales taxes to be approximately 2.5% higher in 2016 than 2015. We expect sales taxes will continue to increase and the county will be in a good position to maintain its very strong performance with general fund surpluses over the next few years. There are several major retail developments that should support sales tax growth.

Very strong budgetary flexibility

Delaware County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 29% of operating expenditures, or $21.4 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. In addition, the county has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

Expenditures include recurring transfers out of the general fund to subsidize activities in other governmental funds and to pay debt service. On a cash basis of accounting, the county added about $1 million to its reserves in 2015, and is budgeting to use $10.5 million in 2016 for the one-time capital projects. The use of reserves is all coming from the committed portion of the county's general fund balance, so it will have no impact on what we consider the available balance (unassigned and assigned). Beyond 2016, the county currently has no plans to draw down reserves. Therefore, we anticipate available reserves will remain above the county's goal of 25%. The county has additional budgetary flexibility in that it has the ability to increase its inside property tax millage by one mill without voter approval. In addition, the county commissioners could increase the county's sales tax rate by 0.25% (subject to voter repeal), and county management has the ability to reallocate 30% of its sales tax revenue from road and bridge purposes to general operations.

Very strong liquidity

In our opinion, Delaware County's liquidity is very strong, with total government available cash at 84.0% of total governmental fund expenditures and 20.5x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary.

The county had about $104 million in liquid cash and equivalents at the end of 2014 (excludes about $33.9 million of restricted cash). We believe the county has strong access to external liquidity, having issued debt, including GO, revenue, and special assessment bonds, within the past 20 years. The majority of the county's investments are in certificates of deposit, federal agency securities, locally issued government debt, mutual funds, and STAR Ohio (the state investment pool), which we don't consider aggressive. In addition, management has confirmed that the county has no contingent liquidity risks from financial instruments with payment provisions that change upon certain events.

Adequate debt and contingent liability profile

In our view, Delaware County's debt and contingent liability profile is adequate. Total governmental fund debt service is 4.1% of total governmental fund expenditures, and net direct debt is 70.2% of total governmental fund revenue.

The county has issued a significant amount of debt in the past two years to support infrastructure projects, which has caused its debt profile to weaken to a level that we consider adequate. The new debt includes about $40 million in sales tax revenue bonds ('AA' long-term rating); although we do not consider sales tax bonds self-supporting under our criteria, it is worth noting that coverage remains strong. Based on debt service schedules for all of the county's debt (including this new issuance), we anticipate total governmental debt service will remain below 8% of expenditures. The county reports that it may issue additional debt in the next three to five years, but based on current estimates, we do not anticipate this debt to substantially weaken its debt profile.

Delaware County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.0% of total governmental fund expenditures in 2014. The county made its full annual required pension contribution in 2014.

The county participates in the Ohio Public Employees Retirement System and makes its annual required contributions for pension and OPEB contributions. We do not consider the liabilities a significant budget pressure, as we do not expect these costs to materially increase over the next two years. The state recently enacted changes to its pension systems that are intended to stabilize employer contributions and increase funding levels.

Strong institutional framework

The institutional framework score for Ohio counties is strong.

Outlook

The stable outlook reflects our anticipation that we will not change the rating in the two-year outlook horizon, given our anticipation that the county will maintain very strong budgetary flexibility and liquidity and at least strong budgetary performance, supported by strong financial management. The county's participation in the broad and diverse Columbus MSA, which is driving consistent revenue growth, also supports the outlook. We could lower the rating if the county's debt profile were to significantly weaken, or if the county's financial profile were to deteriorate.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Ohio Local Governments

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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.