

CREDIT OPINION

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 Rate this Research

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Paulding (County of) OH

Update to credit analysis

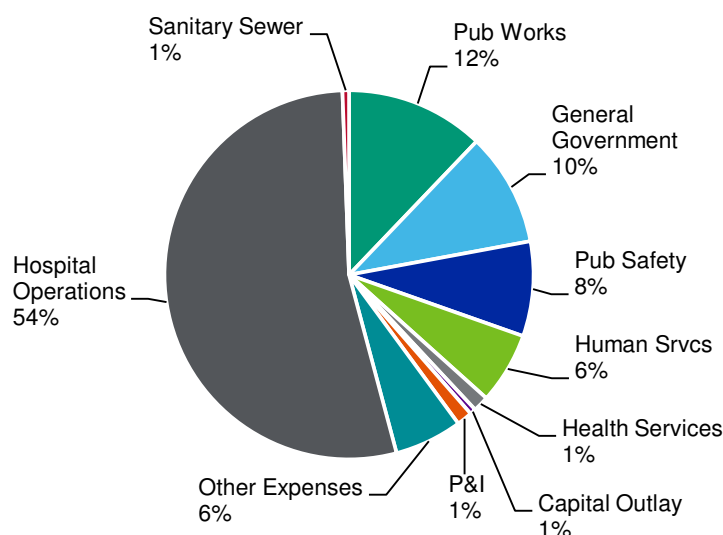
Summary

[Paulding County, OH](#) (Aa3) benefits from steady growth in tax base valuation that partly reflects new wind farms. Other credit strengths include improved operating reserves and a low debt burden. The county's rural, critical access hospital enterprise is large relative to governmental operations and poses some contingent risks, although hospital operations are currently healthy. The county participates in underfunded state cost-sharing pension plans.

On December 17, 2018, Moody's upgraded the county's general obligation unlimited tax (GOULT) rating to Aa3 from A1.

Exhibit 1

Total county expenditures led by hospital operations



Source: audited financial statements

Credit strengths

- » Tax base growth led by wind farm development
- » Ample operating reserves relative to government operations
- » Very low debt burden

Credit challenges

- » Contingent risks associated with small rural hospital enterprise that is large relative to government operations
- » Exposure to underfunded state cost-sharing pension plans

Rating outlook

Outlooks are typically not assigned to issuers with similar amounts of debt.

Factors that could lead to an upgrade

- » Growth in tax base valuation
- » Improvement in resident income levels
- » Moderation of the pension burden

Factors that could lead to a downgrade

- » Contraction of tax base valuation
- » Declines in operating reserves
- » Governmental support for hospital operations
- » Increase in debt or pension burdens

Key indicators

Exhibit 2

Paulding (County of) OH	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,008,488	\$1,263,209	\$1,283,665	\$1,298,095	\$1,408,349
Population	19,441	19,293	19,165	19,057	18,845
Full Value Per Capita	\$51,874	\$65,475	\$66,980	\$68,116	\$74,733
Median Family Income (% of USMedian)	90.0%	89.7%	88.8%	88.4%	88.4%
Finances					
Operating Revenue (\$000)	\$13,925	\$12,854	\$12,073	\$12,702	\$14,763
Fund Balance (\$000)	\$8,006	\$8,898	\$9,890	\$10,796	\$11,751
Cash Balance (\$000)	\$8,064	\$8,960	\$9,911	\$10,817	\$11,842
Fund Balance as a % of Revenues	57.5%	69.2%	81.9%	85.0%	79.6%
Cash Balance as a % of Revenues	57.9%	69.7%	82.1%	85.2%	80.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$2,896	\$2,826	\$2,514	\$2,223	\$1,916
3-Year Average of Moody's ANPL (\$000)	\$25,024	\$25,603	\$24,620	\$24,645	\$27,784
Net Direct Debt / Full Value (%)	0.3%	0.2%	0.2%	0.2%	0.1%
Net Direct Debt / Operating Revenues (x)	0.2x	0.2x	0.2x	0.2x	0.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.5%	2.0%	1.9%	1.9%	2.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.8x	2.0x	2.0x	1.9x	1.9x

Source: audited financial statements, US Census Bureau, Moody's Investors Service

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Profile

Paulding County is located on the [Ohio](#) (Aa1 stable) border with [Indiana](#) (Aaa stable), 25 miles east of downtown [Fort Wayne, IN](#) (Aa1). The county provides general public services, including public safety, detention, human services, public works, and sanitary sewers. The largest county operation is its rural, critical care hospital with 25 beds.

Detailed credit considerations

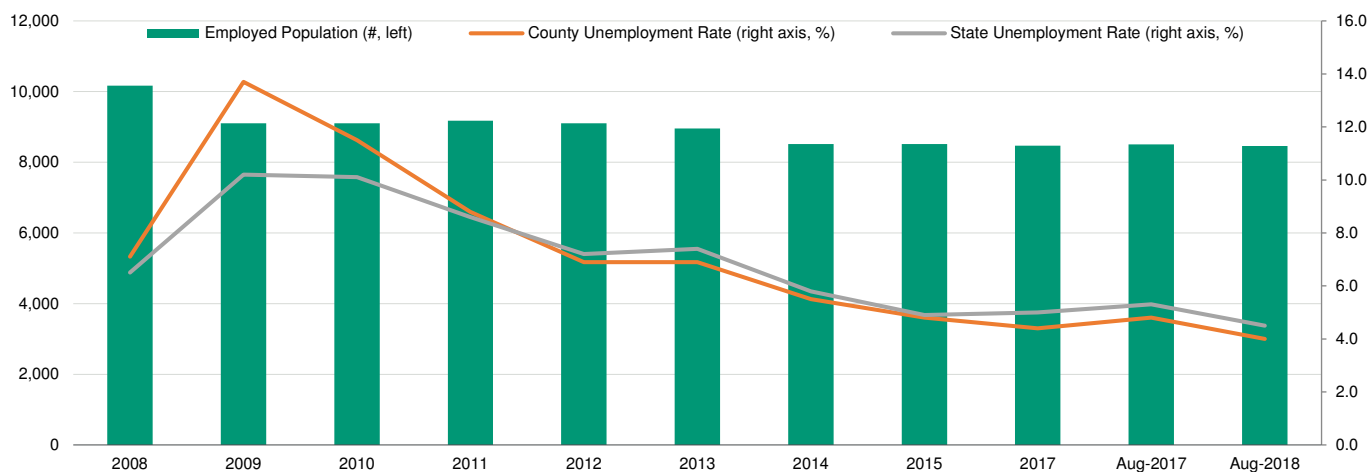
Economy and tax base: rural tax base with wind farm developments, declining employment

Paulding County's economy will likely continue to benefit from wind energy developments, although declining employment poses challenges. The county's \$1.4 billion tax base is highly agricultural: 47% of valuation is categorized as agricultural land, and 45% is residential. Reassessment growth of 9% in 2017 and 25% in 2014 reflected appreciation in agricultural valuation as well as the development of new wind farms. At 204 MW of installed wind capacity and 174 towers as of May 2018, Paulding County produces the [second most wind energy in Ohio](#), only behind its neighbor [Van Wert County](#) (A1). In April 2018, [General Motors](#) (Baa3 stable) announced the completion of a new wind farm in the county of 100 MW to help power all of General Motors' manufacturing facilities in Ohio and Indiana.

County employment is relatively concentrated in manufacturing. The industry represented 34% of county employment in 2017. Top employers include meat, glass, plastics, and cement manufacturers. The county's resident income levels are below the nation, with median family income at 88% of the US. The county's unemployment rate of 4.0% is stronger than the state's rate of 4.5%, but total employment continues to fall as the county's labor force has dropped 20% over the past ten years.

Exhibit 3

Paulding County's unemployment rate is lower than Ohio's, but county employment levels are falling



Source: US Census Bureau

Financial operations and reserves: strong reserves although hospital enterprise poses contingent risk

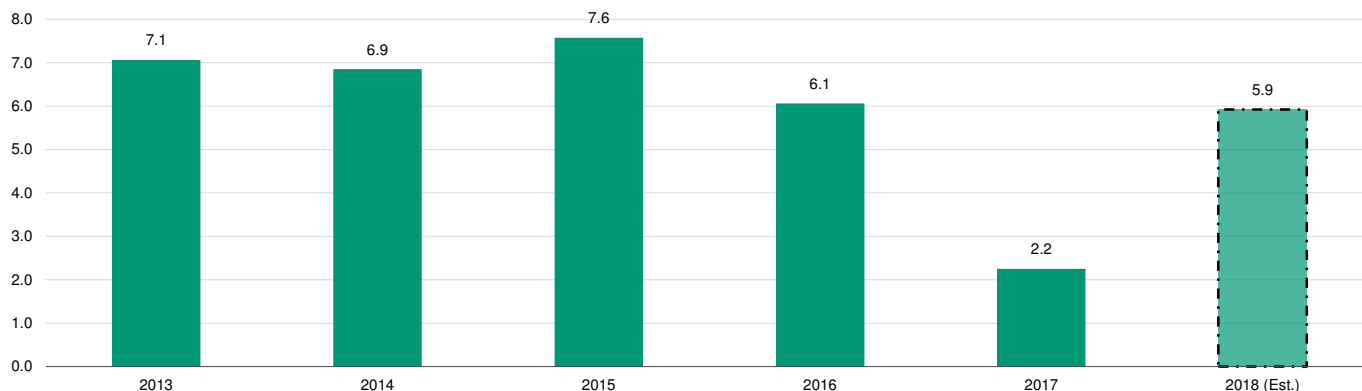
Paulding County's ample operating reserves are a credit strength, although the county's hospital enterprise poses some contingent risks. The county has built a large available fund balance of \$11.8 million or 80% of fiscal 2017 operating revenue (including General Fund, Developmental Disabilities Fund, and Other Governmental Funds). Management expects to maintain reserves at similar levels in fiscals 2018 and 2019. The county primarily funds its governmental operations through property taxes at 28% of revenue and sales taxes at 15% of revenue, with additional support from state disbursements at 25% of revenue and service charges at 11%.

The majority of county operations and revenue originate in its hospital enterprise. The hospital's large size relative to governmental operations poses ongoing contingent risk to governmental operations. The county's hospital enterprise posted \$22.5 million in operating costs in fiscal 2017, equal to a significant 1.5x governmental operating revenue. The hospital has had positive though narrow financial operations with average cash flow margins of 6.0% between fiscals 2013 and 2017. Expenditure growth has outpaced revenue growth in recent years, and the hospital could require governmental support if this trend continues. Hospital revenue is primarily driven

by outpatient services at 89% of 2017 revenue, and the largest payors are Medicare (54% of revenue), Medicaid (11%), and commercial insurance (12%). The operating environment is competitive with five larger hospitals within 30 miles. The hospital has no outstanding revenue debt. The county has not provided direct financial support for hospital operations, although it has issued GO debt to fund hospital improvements.

Exhibit 4

Hospital cash flow margin is positive though narrow



Source: audited financial statements, quarterly financial reports, Moody's Investors Service

LIQUIDITY

At \$11.8 million in net cash in governmental operating funds at the end of fiscal 2017, the county's liquidity is a strong 80% of operating revenue. The hospital also has healthy liquidity with 165 days cash on hand in fiscal 2017.

Debt and pensions: low debt burden; exposure to underfunded state cost-sharing pension plans

The county's debt burden will remain minimal, although exposure to underfunded cost-sharing pensions is a credit weakness. At \$1.9 million in total debt outstanding in fiscal 2017, Paulding County's debt burden was a modest 0.14% of full value and 0.13x operating revenue. However, the county's exposure to the underfunded Ohio Public Employees Retirement System (OPERS) represents a larger burden. Moody's fiscal 2017 adjusted net pension liability (ANPL) was 2.0% of full value and 1.9x operating revenue. The county hospital is also exposed to OPERS underfunding with an additional ANPL burden equal to 1.8x hospital operating revenue in 2017.

Fixed costs, inclusive of debt service, pension, and other post employment benefit (OPEB) contributions, was a low 5.6% of operating revenue in fiscal 2017.

DEBT STRUCTURE

All of the county's debt is fixed rate GO debt and amortizes rapidly with 100% of principal paid in 10 years. The county's debt schedule includes a bullet payment in 2022 of \$831,000, which is a still low 4.5% of governmental operating revenue.

DEBT-RELATED DERIVATIVES

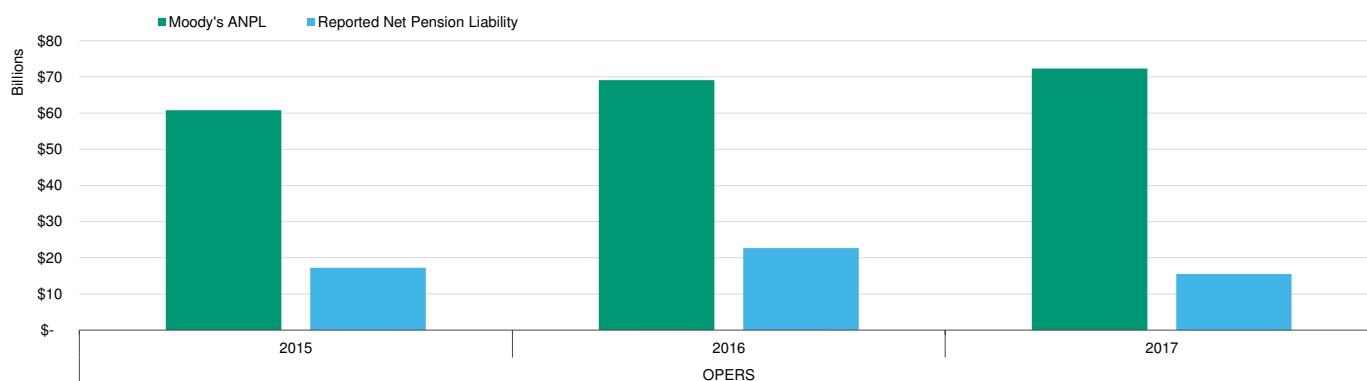
The county is not a party to any debt-related derivatives.

PENSIONS AND OPEB

County employees are members of the Ohio Public Employees Retirement System (OPERS), though a very small share participate in the State Teachers Retirement System (STRS). There is broad legal flexibility in Ohio to amend pension benefits, and statute establishes a 30-year target for amortizing the unfunded liabilities of all cost-sharing plans. In 2012, the 30-year target was breached and the state legislature acted by reducing benefits and increasing employee contributions. The 2012 reforms did not increase employer contributions from participating governments.

Moody's ANPL is our measure of a local government's pension burden that uses a market-based interest rate to value accrued liabilities. The 4.6% increase in the OPERS ANPL in fiscal 2017 was largely due to a drop in the market-based interest rate from the prior year. On a reported basis, the net pension liability of the plan fell by 31.4% between 2016 and 2017 due to favorable investment returns.

Exhibit 5



Source: audited financial statements, Moody's Investors Service

Going forward, we expect unfunded liabilities to grow because statewide contributions remain below the amount necessary for the two plans to tread water¹. Fiscal 2017 employer contributions, which are set by the state as a share of annual payroll, were 83% of the amounts needed to tread water in OPERS.

Management and governance: moderate institutional framework; hospital governance ties

Ohio counties have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and reduce expenditures. The sector's major revenue sources are sales taxes and property taxes. Sales tax is subject to a cap of 1.5% which cannot be overridden. Paulding County levies its full 1.5% sales tax. Management expects sales tax revenue to flatten out over the next two years. Most property tax rate increases require voter approval. Revenues and expenditures tend to be predictable. Ohio has public sector unions, which can limit the ability to cut expenditures.

The county's hospital is governed by a board of directors appointed by the county board of commissioners, probate judge, and judge of the court of common pleas. Hospital staff is not unionized, and management does not anticipate any staffing shortages. While the hospital does not have a recent history of direct county support other than supporting GO debt service for hospital purposes, the close management ties signal the risk that the county will step in to support the hospital if necessary. This risk is magnified given the hospital's outsized operations compared to general county operations.

Endnotes

¹ 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.

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