

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on Richland County, O.H.'s general obligation (GO) debt one notch to 'AA-' from 'A+'. The outlook is stable.

At the same time, S&P Global Ratings assigned its 'AA-' long-term rating and stable outlook to the district's series 2019 GO refunding bonds.

The rating action reflects our opinion of the steps taken to improve county's finances and management's ability to achieve positive operations during the past four fiscal years while projecting similar fiscal 2019 results. In addition, the county's economy has experienced stable and consistent growth during the same period.

The county's full faith and credit and an agreement to levy ad valorem property taxes within the 10-mill limitation secure the bonds. We believe the county possesses the financial stability and fungability necessary to sustain ratings on the limited-tax bonds equal to an unlimited-tax pledge. Officials will use the bonds proceeds to refund the county's series 2011 and series 2013 GO bonds for interest savings with no extension to maturities.

Credit summary

While sales taxes are more sensitive to changes in economic cycles, we believe that the strength and stability of the local economy provide more resiliency to the county's tax collections and therefore its financial profile. Sales taxes have exhibited strong growth in recent years. Furthermore, the county has historically maintained very strong reserves and we believe that this provides the county with more flexibility to adjust its budget in response to economic downturns or other unexpected pressures.

The 'AA-' rating reflects our assessment of the county's:

- Very weak economy, with market value per capita of \$49,680 and projected per capita effective buying income at 76.9% of the national level;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 59.8% of total governmental fund expenditures and 24.1x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 23.9% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very weak economy

We consider Richland County's economy very weak. The county has an estimated population of

120,460. The county has a projected per capita effective buying income of 76.9% of the national level and per capita market value of \$49,680. Overall, the county's market value grew by 2.1% over the past year to \$6.0 billion in 2019. The county unemployment rate was 4.9% in 2018.

The county, which encompasses nearly 450 square miles, is located in central Ohio approximately 80 miles south of Cleveland and 60 miles north of Columbus. Most residents work in the county with the service sector leading the way as far as employment and with manufacturing and trade having a material presence. Officials report ongoing economic development throughout the county and stability among major employers.

Adequate management

We view the county's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The county employs line-by-line budgeting for each department and utilizes five years of historical information and various outside sources during the process. The county can amend the budget as needed and reports to the board on a monthly basis the budget-to-actual results. The county has a formal 5 year capital plan which it updates annually and estimates timeframe and costs. It does not identify funding sources. The county does not have a long-term financial plan. Management adopted its own investment policy and reports to the board members on a monthly basis the holdings and performance of its investments. The county follows state guidelines for debt management. In late 2015, the county adopted a budget stabilization policy to provide options to respond to unexpected issues and afford a buffer against shocks and other forms of risk such as revenue volatility, unexpected infrastructure failure, or disaster situations. The reserve money shall not exceed 5% of the revenue credited to the general fund in the preceding fiscal year but management expect to maintain up to this policy.

Strong budgetary performance

Richland County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 3.9% of expenditures, and slight surplus results across all governmental funds of 0.5% in fiscal 2018.

Richland County's budgetary performance is strong, in our opinion, as it has a track record of achieving consistent operating surpluses over the past four years given its conservative budgetary practices and the strength of management.

Officials project general fund fiscal 2019 sales tax revenues up 3% from the previous year and interest income approximately \$600,000 above budgeted. With expenditures in line with budget, we expect the county to end the year with another surplus in its general fund. Officials report no major changes to funds outside of the general fund, so we expect total governmental fund performance to be similar to that of prior years. Management does not have any plans to use reserves to balance its budget so we expect budgetary performance will remain strong in fiscal 2020 as well.

Officials expect organic growth in sales tax revenue to continue. If not, we anticipate

management will make expenditure adjustments as it deems necessary to maintain balanced operations.

Very strong budgetary flexibility

Richland County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 28% of operating expenditures, or \$9.9 million.

The county has no plans to significantly use reserves in 2019 or 2020, so we anticipate that budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Richland County's liquidity is very strong, with total government available cash at 59.8% of total governmental fund expenditures and 24.1x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

In our view, the county has strong access to external liquidity if necessary, as demonstrated by its issuance of various types of debt through the capital markets in the past 20 years. The county's investments are mainly in highly rated securities and, in our opinion, are not aggressive. In addition, management has confirmed that the county has no contingent liquidity risks from liabilities or financial instruments with payment provisions that change upon certain events.

Very strong debt and contingent liability profile

In our view, Richland County's debt and contingent liability profile is very strong. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 23.9% 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.

Officials have confirmed that the county has no alternative financings. It is our understanding that the county may issue a small amount of debt over the next two years, but we do not anticipate that this will materially affect its debt profile.

Richland County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.7% of total governmental fund expenditures in 2018. The county made its full annual required pension contribution in 2018.

The county participates in the Ohio Public Employees Retirement System (OPERS) and the State Teachers Retirement System of Ohio (STRS) and makes its annual required contributions for pension and OPEB contributions, which are equal to the actuarially determined amount. 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 the pension systems that are intended to stabilize employer contributions and increase funding levels.

Per Government Accounting Standards Board (GASB) Statement No. 68 standards, employers with benefits administered through cost-sharing, multi-employer pension plans such as OPERS and STRS must report their proportionate share of the net pension liability. The county's shares of the net OPERS and STRS liabilities as of the most recent actuarial valuation (2016) were

\$56.7 million and \$1.0 million, respectively. The county's proportionate share of the net pension liability is based on statutory required contributions in relation to all reporting units' statutorily required contributions for the measurement period. The funding ratios for OPERS and STRS are 77.2% and 66.8%, respectively.

Strong institutional framework

The institutional framework score for Ohio counties is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Richland County's very strong budgetary flexibility and liquidity, as a percent of recurring expenditures, and strong budgetary performance. Therefore, we do not expect to change the rating again within the two-year outlook period because the economic environment is stable and management has sustained budgetary alignment and reserve balances.

Downside scenario

If operating performance and reserves were to weaken or if the regional economy were to soften, we could lower the rating.

Upside scenario

All else remaining equal, if the county's economy were to grow and diversify, we could raise the rating further.