NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD
MATERIAL EVENT
Rating Change
Pursuant to SEC Rule 15c2-12

ISSUER: Richland County, Wisconsin

SIX-DIGIT CUSIP: 763716

REPORTABLE EVENT: **Rating Change**

Moody's Investors Service, Inc. has downgraded Richland County's general obligation rating from "A2" to "A3" and has removed the Negative Outlook.

Attached is Moody's Credit Opinion dated March 16, 2018 supporting the rating update.

This rating reflects the views of Moody's Investors Service, Inc., and an explanation of the significance of such ratings may be obtained from Moody's website at www.moodys.com.

Filing Date: March 21, 2018

The Issuer has authorized Wisconsin Public Finance Professionals, LLC, as dissemination agent, to distribute this information publicly.

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CREDIT OPINION
16 March 2018

Rate this Research

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Richland (County of) WI

Update following downgrade of GO to A3

Summary

Richland County, WI (A3) has a modest but stable tax base. Its debt burden is above average, but should moderate with the absence of borrowing plans in the coming year. Financial operations were weak in recent years and the county's operating fund balance and liquidity fell to very narrow levels. Concurrently, operations of the county's nursing home enterprise were weak and required steady financial support from the governmental funds. Recent budgetary adjustments should reduce or eliminate the county's underlying budgetary gap. And recent borrowing for capital projects will help improve and stabilize liquidity. Nursing home liquidity is estimated to have improved in the last year as well, but county ownership will remain a long-term enterprise risk.

On March 15, we downgraded the county's general obligation rating to A3 from A2.

Credit strengths

» Stable and diverse tax base

» Anticipated improvement in fund balance and liquidity in the recently ended fiscal 2017

» Recent budgetary adjustments should reduce the county's underlying budget gap in fiscal 2018

Credit challenges

» Rapidly growing health and human services expenses

» Long-term enterprise risk associated with nursing home ownership

» Narrow operating liquidity

Rating outlook

Outlooks are typically not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Sustained improvement in fund balance and liquidity in both operating funds and the county's nursing home

» Sustained growth and expansion of the county's tax base and economy

Factors that could lead to a downgrade

- Continued negative variances in health and human services expenditures leading to pressure on operating liquidity
- Deterioration in the county's tax base and demographic profile
- Escalated enterprise risk that impacts the county's financial operations

Key indicators

Exhibit 1 1

Key Indicators Table

Richland (County of) WI	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$1,062,334	$1,037,181	$1,053,070	$1,072,880	$1,113,581
Population	18,020	17,911	17,842	17,746	17,476
Full Value Per Capita	$58,953	$57,908	$59,022	$60,458	$63,721
Median Family Income (% of US Median)	85.0%	85.3%	86.3%	84.9%	84.9%
Finances					
Operating Revenue ($000)	$15,678	$15,600	$15,435	$16,032	$17,167
Fund Balance ($000)	$2,758	$2,760	$2,495	$1,459	$1,196
Cash Balance ($000)	$2,473	$2,364	$1,685	$1,036	$809
Fund Balance as a % of Revenues	17.6%	17.7%	16.2%	9.1%	7.0%
Cash Balance as a % of Revenues	15.8%	15.2%	10.9%	6.5%	4.7%
Debt/Pensions					
Net Direct Debt ($000)	$5,025	$4,710	$4,420	$15,620	$25,310
3-Year Average of Moody's ANPL ($000)	$7,158	$8,944	$12,197	$16,618	$23,743
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	1.0x	1.5x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.4%	1.5%	2.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.8x	1.0x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.9%	1.2%	1.5%	2.1%

Source: Audited Financial Statements, Moody's Investors Service

Profile

Richland County is located in southwestern Wisconsin (Aa1 stable), along the Wisconsin River, approximately 60 miles northwest of Madison (Aaa stable). The county encompasses 584 square miles with an estimated 2017 population of 17,896.

Detailed credit considerations

Economy and tax base: stable economy with moderately sized tax base

Richland County, WI benefits from a moderately sized tax base of $1.1 billion in full value, growing at a stable rate of roughly 2% per year. The tax base is diverse, with the ten largest taxpayers making up less than 6% of the base and spread over the dairy, retail, and healthcare industries. County unemployment reached a low 2.4% as of December 2017, although the labor force shrunk from an estimated 10,500 labor force participants in 2009 to 9,500 in 2017. Median family income is a modest 85% of the US median family income. Richland County is a mature community with a median age of 44 and 20% of the population at age 65 or older. This compares to the state's median age of 39 and 15% over the age of 65.

Financial operations and reserves: healthcare exposure and nursing home enterprise narrows reserves, major credit challenge but likely to improve

The county's greatest challenge has been controlling health and human services costs to accommodate local healthcare programs. Tied into this is long-term enterprise risk associated with owning and operating a nursing home. Moody's maintains a negative outlook on public healthcare services and enterprises due to declining operating cash flows and an expected continued contraction of 2-4% through 2018. Furthermore, exposure to government payors increases risk with low reimbursement rates. Expense inflation is also growing due to rising labor costs and nursing shortages. The county's nursing home is primarily Medicaid funded and is also exposed to state and county financial aid.

In 2016, the county collected $17.2 million in operating revenue composed primarily of intergovernmental revenues (42% of total), property taxes (26%), and charges for services (20%). Expenditures were largely consisted of health and human services (50% of operating expenditures) and public safety (22%).

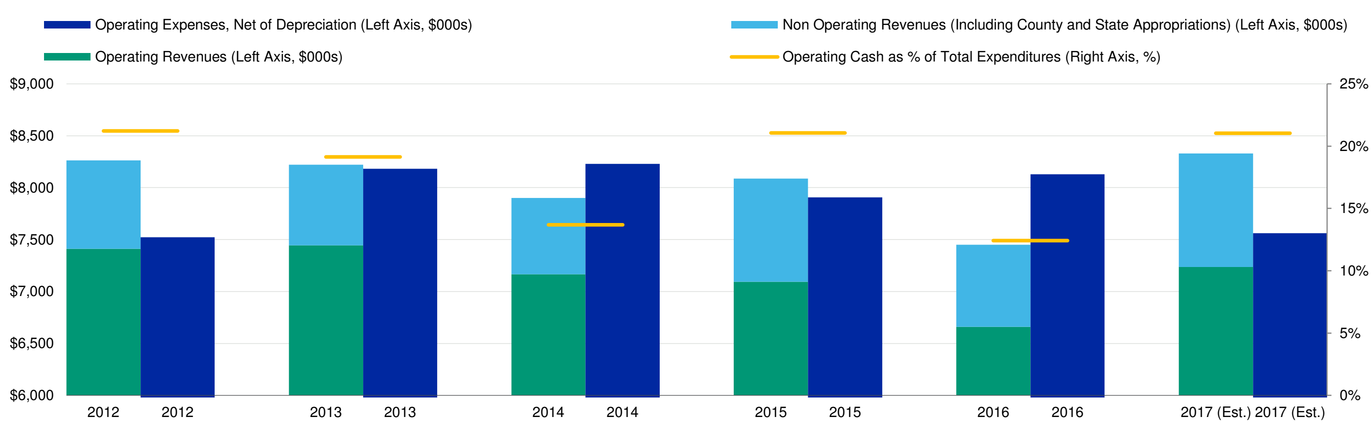
Health and human services (HHS) costs grew substantially from $7.4 million in 2014 to $8.4 million in 2015 and to $8.7 million in 2016. These cost increases due to court ordered out-of-home placements contributed to a $1.3 million operating shortfall (8% of operating revenues) in 2015 and a $323,000 operating shortfall (2% of operating revenues) in 2016. Draws on reserves to cover the difference left available fund balance at $1.2 million (7% of operating revenues) in 2016, down from $2.5 million (16% of operating revenues) in 2014. On a positive note, the operating deficit in 2016 was half of what the county originally anticipated.

In 2017, the county estimates a roughly $196,000 operating deficit before transfers in, which include property tax transfers from other non-operating funds (described more in the liquidity section). For the 2018 budget, the county made a substantial increase in HHS allocations of roughly $500,000 in additional funding after adopting a $1.5 million increase in its total tax levy to address rising debt service and cutting other department expenditures. We expect the county's operating deficit to continue shrinking, although achieving fully balanced operations may remain a challenge.

The operating deficit in the nursing home enterprise unit grew from $813,000 in 2015 to $1.5 million in 2016, before transfers. This was partly the result of a delay in opening following expansion. Estimates for fiscal 2017 suggest a smaller operating deficit of $330,000 before receipt of state supplemental payments. With the state payments, the nursing home's net income was positive and liquidity is estimated to improve to $1.8 million, or 77 days of operating expenses. Despite this improvement, because of the nursing home's high Medicaid exposure (73% of payor mix), high reliance on external state supplemental payments (10% of total revenues), challenges in the nursing home industry, and our negative outlook on healthcare generally, we consider the nursing home enterprise to remain a major credit risk for the county.

Exhibit 2 2

Nursing home operations expected to stabilize in 2017 after major shortfall in 2016



2017 estimates based on county's internal accounting.

Source: Richland County's audited financial statements, Moody's Investors Service

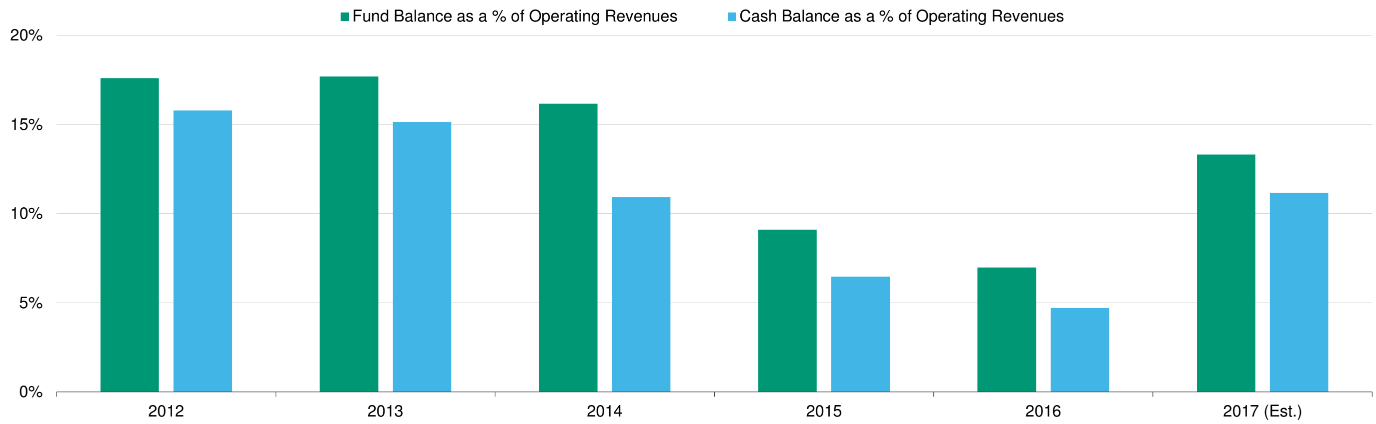
LIQUIDITY

The county's operating cash reserves narrowed to $809,000 or 4.7% of operating revenue by 2016, down from $2.4 million and 15% in 2013 due to operating pressures. Across all governmental and business funds, the county maintained $3.8 million in cash in 2016 compared to roughly $30 million in total county revenues. This liquidity was comprised of $1 million in nursing home cash, $1.8 million in highway fund cash, and $1 million in general governmental funds.

To inject liquidity into its operating funds in 2017, the county directed $1.4 million in property taxes typically dedicated for pay-go highway capital improvements to the general fund. The county borrowed from state trust funds $1.3 million to continue funding annual highway capital projects without the pay-go mechanism, trading a small increase in debt service (with an unlimited debt levying power) with a much needed infusion of liquidity. This property tax transfer is expected to fill the $196,000 operating deficit in 2017 and add $1.2 million to reserves, likely increasing liquidity to $2 million or roughly 11% of operating revenues in 2017. But unless the county takes on further debt or defers highway maintenance, the $1.4 million property tax repurposed to the general fund in fiscal 2017 will likely be needed to support highway programs again in the coming years.

Exhibit 3 3

Narrowing reserves into 2016, likely to recover somewhat in 2017



2017 estimates based on county's internal accounting; audit forthcoming.
Source: Audited financial statements, Richland County, Moody's Investors Service

Debt and pensions: above average leverage but liabilities manageable

Richland County, WI maintains above average leverage with debt outstanding equalling 2.3% of the county's full value and 1.5x operating revenue in 2016. The additional 2017 loans for highway and other capital improvements have a very modest impact on total leverage. Scheduled debt service will increase from $468,000 in 2016 to $1.8 million in 2018 and furthermore to its maximum annual debt service of $2.2 million in 2020. All debt is levied for and covered by the unlimited taxing power of the county, and the county recently increased its local levy to cover upcoming debt service expenditures. The county has no plans to issue additional debt in the next twelve months.

DEBT STRUCTURE

The county's debt portfolio is comprised of fixed rate GO bonds and notes. Amortization of existing debt is below average, with 53% of debt retired in the next ten years.

DEBT-RELATED DERIVATIVES

The county is not a party to any interest rate swap or derivative agreements.

PENSIONS AND OPEB

The three-year average Moody's adjusted net pension liability (ANPL) for the county was $23.7 million as of 2016, equivalent to 2.1% of full value or 1.4x operating revenue. The pension plan is managed by the multi-employer, cost-sharing Wisconsin Retirement System (WRS). While this figure has increased over prior years, the county's pension burden, like that of most Wisconsin local governments, remains lower than many US local government pension burdens.

Moody's uses a market-based interest rate to value accrued liabilities in calculating a local government's ANPL. The ANPL is not intended to replace a government's reported liability information but is used to enhance comparability with other rated entities. The county does not provide other post employment benefits (OPEB).

Management and governance: moderate institutional framework

Wisconsin counties have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue source, property tax revenue, is subject to a cap which limits increases to amounts represented by net new construction growth. Revenues and expenditures tend to be predictable. Across the sector, fixed and mandated costs are generally moderate. Counties have a high ability to reduce expenditures, as workforces are mainly comprised of non-public safety employees, for whom collective bargaining is limited.

Richland County's management team has responded to the county's financial challenges by restructuring departments, raising levies, generating liquidity, and improving nursing home operations. The county has tools to further improve near term liquidity by offsetting traditionally pay go capital improvements through borrowing. These tools to address operating challenges that could, in part, result from ownership of a nursing home, are a key consideration in the current rating.

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