

CREDIT OPINION

9 February 2023



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Village of Put-in-Bay, OH

Update following revision of outlook to stable

Summary

The [Village of Put-In-Bay, OH](#) (Baa2 stable) retains a strong financial position across governmental and business-type funds despite a trend of operational imbalance that has materially weakened general fund liquidity. The village is a tourist destination located on South Bass Island with a revenue mix that is reliant on economically sensitive sources. Leverage and adjusted fixed costs are elevated but in line with similarly rated peers nationally. In addition to these underlying credit challenges, the village has a history of material governance issues.

On February 9, Moody's affirmed the village's issuer and general obligation limited tax (GOLT) ratings at Baa2. Concurrently, the outlook was revised to stable from negative.

Credit strengths

- » Strong operating results and liquidity position in the village's business enterprises
- » Flexibility to raise local revenue for operations

Credit challenges

- » Small and concentrated local economy
- » Narrow general fund liquidity
- » Financial reporting missing non-cash assets and liabilities
- » History of material governance issues
- » Elevated leverage and adjusted fixed costs

Rating outlook

The stable outlook reflects our expectation that the village's liquidity position will remain stable over the next 12 to 24 months and that projected draws in governmental cash in fiscal 2023 will be offset by growth in enterprise funds.

Factors that could lead to an upgrade

- » Trend of balanced operations that grow governmental reserves
- » Significant moderation in long-term liabilities paired with reduction in fixed costs

Factors that could lead to a downgrade

- » Decline in liquidity
- » Significant increase in long-term liabilities

Key indicators

Exhibit 1

Put-In-Bay (Village of) OH

| | 2018 | 2019 | 2020 | 2021 | Baa Medians |
|---|-------------|-------------|-------------|-----------|-------------|
| Economy | | | | | |
| Resident income ratio (%) | 140.9% | 140.2% | 136.6% | N/A | 79.6% |
| Full Value (\$000) | \$131,550 | \$142,438 | \$143,525 | \$147,600 | \$841,412 |
| Population | 68 | 71 | 56 | N/A | 20,226 |
| Full value per capita (\$) | \$1,934,558 | \$2,006,173 | \$2,562,949 | N/A | \$54,757 |
| Economic growth metric (%) | N/A | -2.3% | -1.5% | -1.1% | -1.4% |
| Financial Performance | | | | | |
| Revenue (\$000) | \$3,328 | \$5,484 | \$3,125 | \$3,743 | \$35,704 |
| Available fund balance (\$000) | \$2,901 | \$3,232 | \$3,238 | \$3,511 | \$3,841 |
| Net unrestricted cash (\$000) | \$3,316 | \$3,701 | \$3,238 | \$3,511 | \$11,219 |
| Available fund balance ratio (%) | 87.2% | 58.9% | 103.6% | 93.8% | 20.7% |
| Liquidity ratio (%) | 99.6% | 67.5% | 103.6% | 93.8% | 30.9% |
| Leverage | | | | | |
| Debt (\$000) | \$8,785 | \$9,767 | \$9,541 | \$9,273 | \$17,851 |
| Adjusted net pension liabilities (\$000) | \$4,184 | \$6,828 | \$7,510 | \$5,728 | \$104,072 |
| Adjusted net OPEB liabilities (\$000) | \$0 | \$0 | \$0 | \$0 | \$14,307 |
| Other long-term liabilities (\$000) | \$0 | \$0 | \$0 | \$0 | \$1,278 |
| Long-term liabilities ratio (%) | 389.7% | 302.6% | 545.6% | 400.8% | 412.7% |
| Fixed costs | | | | | |
| Implied debt service (\$000) | \$0 | \$647 | \$712 | \$683 | \$1,502 |
| Pension tread water contribution (\$000) | \$104 | \$194 | \$138 | \$105 | \$3,593 |
| OPEB contributions (\$000) | \$0 | \$0 | \$0 | \$0 | \$122 |
| Implied cost of other long-term liabilities (\$000) | \$0 | \$0 | \$0 | \$0 | \$85 |
| Fixed-costs ratio (%) | 3.1% | 15.3% | 27.2% | 21.1% | 18.0% |

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Ottawa County to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Put-In-Bay (Village of) OH's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

Profile

The Village of Put-In-Bay is located on South Bass Island in Lake Erie located north of the Marblehead Peninsula in [Ottawa County, Ohio](#) (Aa2), approximately 30 miles east of [Toledo](#) (A2 stable).

Detailed credit considerations

Economy: small and concentrated island in Lake Erie

The village's very small and concentrated tax base will remain a key credit challenge. The village, which is located on a small island in Lake Erie, is highly dependent on fees and taxes supported by tourism, such as hotel and resort taxes as well as docking fees. The village's estimated full-time population as of 2021 was about 100 residents, but tourism brings hundreds of thousands of visitors to the island annually. Property valuation is concentrated among the top 10 taxpayers, which together comprise about a quarter of the village's assessed valuation. Top taxpayers are a mix of individuals and commercial properties and because of the village's very small

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population, full value per capita is an exceptional \$2.6 million. Real GDP in Ottawa County, where Put-In-Bay is located, grew at a compound annual rate of 1% over the last five years, which is somewhat sluggish relative to the nation as a whole which grew 2.1%.

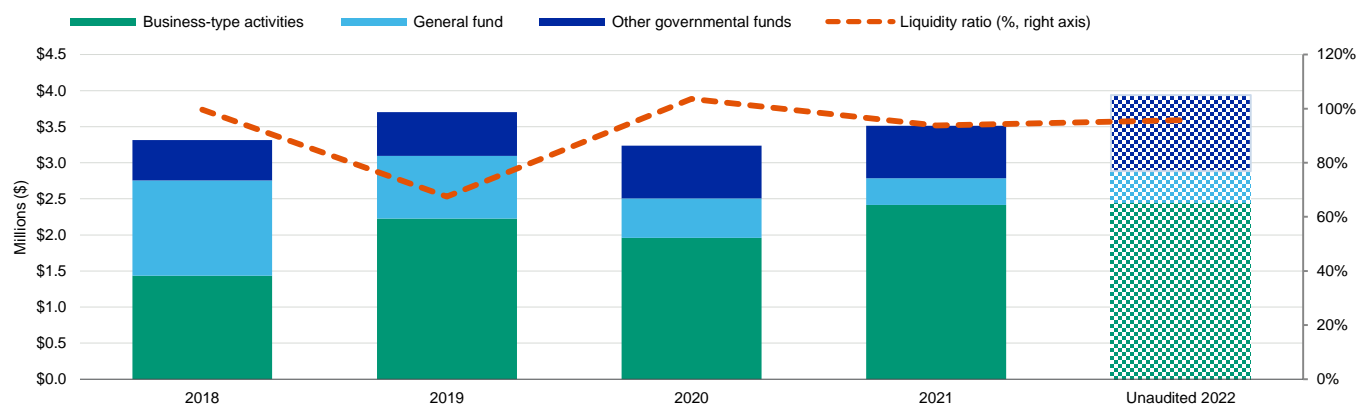
Financial operations: strong liquidity across all funds offsets narrow general fund

The village's reserve position will likely remain stable across governmental and business-type activities for at least the next two years because of a small unaudited surplus in fiscal 2022 (December 31 year-end) and balanced operations expected in 2023. The village has flexibility in setting most non-ad valorem taxes and management is exploring revenue options to address recent imbalance. As an initial measure, the village increased several local licensing fees at the onset of 2023 and will seek council approval before the peak tourist season to implement a parking fee that could generate about \$50,000.

Exhibit 2

Overall liquidity remains fairly stable despite declining trend in the general fund

Net cash by fund as a ratio of total annual revenue



Source: Moody's Investors Service & Put-In-Bay audited financial statements

Preliminary results for fiscal 2022 indicate a surplus of about \$240,000 across governmental funds driven by strong receipts from taxes and fees related to tourism. Just over half of the village's governmental revenue sources come from hotel and resort taxes and docking fees account for another 15%. Despite narrowing in the general fund over the last five years, reserves in other governmental funds have been stable and are funded from special revenue sources that are committed or assigned primarily to capital outlay.

The village operates water distribution and sewer services as business enterprises. By ordinance, water and sewer rates are increased annually by 3.5% and the village's council approved a 7% increase in 2022 to address inflation and begin saving for a new water tower. Operations at the enterprises are strong because the service area includes the larger township in addition to customers located within the village. At the close of fiscal 2021, the enterprises held about two and a half years of operations in cash.

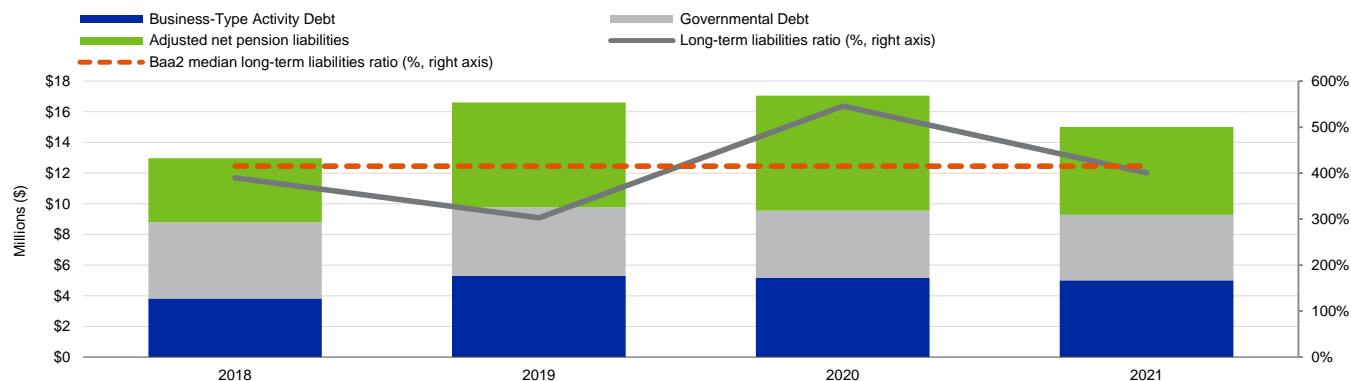
Liquidity

The village's net cash balance across governmental funds and business-type activities totaled \$3.5 million, or 94% of total annual revenue. Financial statements are reported on a cash basis and do not include receivables and payables, a credit weakness.

Leverage: elevated long-term liabilities and fixed costs

The village's elevated long-term liabilities are likely to remain high because of slow debt payout and little control over defined pension benefits that are dictated by state statute. Long-term leverage inclusive of governmental debt, business-type debt and liabilities associated with the village's two cost-sharing, multiple employer pension plans, which also provide other post employment benefits, is an elevated 400% of total annual revenue. Adjusted fixed costs to service debt and pensions are also high at 21% of operating revenue, mostly driven by debt service.

Exhibit 3

Leverage split between debt and pensions**Long-term liabilities by type and as a % of total annual revenue**

Note: OPEB provided by pension plans

Sources: Moody's Investors Service & Put-In-Bay audited financial statements

Legal security

The village's GOLT bonds are backed by the village's full faith and credit as well as a pledge to levy ad valorem property taxes under the statutory 10-mill limitation

Debt structure

All of the village's debt is fixed rate. Principal payout is slower than average, with roughly 50% scheduled to be paid within 10 years. The village has about \$900,000 in short-term bond anticipation notes (BANs) maturing in 2023. Management plans to roll over about half of the outstanding total in 2023 following the expected sale of land purchased with the notes.

Debt-related derivatives

The village is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

Village employees are members of the Ohio Public Employees Retirement System (OPERS) and the Ohio Police & Fire Pension Fund (OP&F). 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. Despite the flexibility to contain the plan's liabilities, Put-In-Bay's exposure to the two plans will likely be a long term credit drag relative to its highly rated peers who participate in either stronger funded defined benefit pension plans or those who offer only defined contribution plans.

ESG considerations

Put-In-Bay's overall ESG Credit Impact Score is moderately negative (CIS-3), reflecting highly negative governance risks, moderately negative environmental risks and neutral to low exposure to social risks.

Environmental

Put-In-Bay's E-3 issuer profile score reflects moderately negative exposure to environmental risks, specifically physical climate risk such as fluctuations in water levels that can cause flooding. Flooding at the village's docks and in the downtown area can impact local revenue since most economic activity is centered in these geographic areas. On a longer horizon, the village could be negatively impacted by receding water levels in Lake Erie, should changing levels require relocation or replacement of docks and other infrastructure. Risk across all other categories, including carbon transition, natural resources management, waste and pollution is neutral to low.

Social

Put-In-Bay's S-2 issuer profile score reflects neutral to low exposure to social risks. The village's residential population is very small and declining. Local income is above average, as is educational attainment.

Governance

Put-In-Bay's G-4 issuer profile score is highly negative, reflecting weak policy credibility and effectiveness and transparency and disclosure practices. The village has a history of material weakness findings in its audits and the state auditors have issued no opinion on the effectiveness of internal controls. Though management has since turned over, the village has a recent history of corruption charges that resulted in numerous indictments after investigation by both federal and state authorities. Additionally, transparency and disclosure practices are weak because of the use of an accounting basis other than generally accepted accounting principals that does not account for non-cash assets and liabilities.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

The assigned rating is different from the scorecard-indicated outcome because of additional considerations related to the village's concentrated tax base, very small resident population and history of material governance challenges.

Exhibit 4

Put-In-Bay (Village of) OH

| | Measure | Weight | Score |
|--|-----------|--------|-------------|
| Economy | | | |
| Resident income ratio | 136.6% | 10.0% | Aaa |
| Full value per capita | 2,798,800 | 10.0% | Aaa |
| Economic growth metric | -1.1% | 10.0% | A |
| Financial Performance | | | |
| Available fund balance ratio | 93.8% | 20.0% | Aaa |
| Liquidity ratio | 93.8% | 10.0% | Aaa |
| Institutional Framework | | | |
| Institutional Framework | Aa | 10.0% | Aa |
| Leverage | | | |
| Long-term liabilities ratio | 400.8% | 20.0% | Baa |
| Fixed-costs ratio | 21.1% | 10.0% | Baa |
| Notching factors | | | |
| Additional Strength in Local Resources | 1.0 | | |
| Limited scale of operations | -1.0 | | |
| Financial disclosures | -2.0 | | |
| Scorecard-Indicated Outcome | | | A2 |
| Assigned Rating | | | Baa2 |

Sources: US Census Bureau, Put-In-Bay (Village of) OH's financial statements and Moody's Investors Service

Appendix

Exhibit 5

Key Indicators Glossary

| | Definition | Typical Source* |
|---|--|--|
| Economy | | |
| Resident income ratio | Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI | MHI: US Census Bureau RPP: US Bureau of Economic Analysis |
| Full value | Estimated market value of taxable property in the city or county | State repositories; audited financial statements; continuing disclosures |
| Population | Population of the city or county | US Census Bureau |
| Full value per capita | Full value / population | |
| Economic growth metric | Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US | Real GDP: US Bureau of Economic Analysis |
| Financial performance | | |
| Revenue | Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions | Audited financial statements |
| Available fund balance | Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds | Audited financial statements |
| Net unrestricted cash | Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt | Audited financial statements |
| Available fund balance ratio | Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue | |
| Liquidity ratio | Net unrestricted cash / Revenue | |
| Leverage | | |
| Debt | Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements | Audited financial statements; official statements |
| Adjusted net pension liabilities (ANPL) | Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Adjusted net OPEB liabilities (ANOL) | Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Other long-term liabilities (OLTL) | Miscellaneous long-term liabilities reported under the governmental and business-type activities entries | Audited financial statements |
| Long-term liabilities ratio | Debt + ANPL + ANOL + OLTL / Revenue | |
| Fixed costs | | |
| Implied debt service | Annual cost to amortize city or county's long-term debt over 20 years with level payments | Audited financial statements; official statements; Moody's Investors Service |
| Pension tread water contribution | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met | Audited financial statements; Moody's Investors Service |
| OPEB contribution | City or county's actual contribution in a given period | Audited financial statements |
| Implied cost of OLTL | Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments | Audited financial statements; Moody's Investors Service |
| Fixed-costs ratio | Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue | |

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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REPORT NUMBER 1356295

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