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CREDIT OPINION
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Cuyahoga (County of), OH

Update to analysis

Summary

The credit profile of Cuyahoga County (Aa2 stable) has remained consistent throughout the current pandemic as increased real estate values and growth in operating reserves have blunted COVID-related economic impacts to the county's budget. While the county's sales tax revenue dipped in 2020, the decline was much less than originally anticipated and collections rebounded strongly in 2021. Additionally, the county has benefitted considerably from several rounds of federal stimulus which provide a significant buffer to continue to absorb potential pressure, should it arise, in certain revenue streams such as hospitality taxes and nontax revenue. Cuyahoga's healthy governmental balance sheet will enable it to take on additional leverage, in the form of bonded debt for capital projects, without material degradation to its overall credit profile. Our credit view further reflects the county's exposure to contingent liability debt of MetroHealth System (Baa3 positive), a component unit of the county, as well as its neutral-to-low exposure to environmental and social risks, and positive governance factors.

On January 6, 2022 Moody's assigned a Aa2 rating to the county's $123.4 million Sales Tax Revenue Bonds, Series 2022A (Ballpark Improvement Project) (Tax-Exempt) and $67.5 million Sales Tax Revenue Bonds, Series 2022B (Ballpark Improvement Project) (Federally Taxable). We also affirmed the Aa2 rating on the county's previously issued sales tax revenue debt. The two new series of bonds will be used to finance costs of renovating the multi-purpose ballpark now known as Progressive Field.

Credit strengths

» Very large tax base encompassing the City of Cleveland (A1 stable) and many surrounding suburbs

» Healthy financial position supported by strong fiscal management and rebounding sales tax collections

» Receipt of significant amounts of COVID-related federal stimulus

Credit challenges

» Full value per capita wealth and median family income trail similarly rated peers in the US county sector

» Above average combined debt, pension, and OPEB leverage

Rating outlook

The stable outlook reflects the expectation that the county will maintain healthy reserves and liquidity over the next several years based on the demonstrated resiliency of its core operating revenue streams combined with its on-going receipt of significant COVID-related federal stimulus. The county's sound fiscal position will enable it to take on additional leverage without materially weakening its overall credit profile. Additionally, the county's sales tax collections will continue to provide strong debt service coverage on its new and outstanding sales tax revenue bonds.

Factors that could lead to an upgrade

» Strengthening of the county's demographic and economic profile

» Moderation of the county's debt and pension burdens

Factors that could lead to a downgrade

» Pronounced economic or tax base contraction

» Significant narrowing or operating fund balance or liquidity

» Material increase to the county's combined debt, pension, and OPEB burden

Key indicators

Exhibit 1

Cuyahoga (County of) OH	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value ($000)	$78,646,146	$78,924,984	$79,652,199	$87,247,433	$87,280,602
Population	1,258,710	1,257,401	1,253,783	1,247,451	1,264,817
Full Value Per Capita	$62,482	$62,768	$63,529	$69,941	$69,007
Median Family Income (% of US Median)	90.6%	90.0%	89.5%	88.7%	88.7%
Finances					
Operating Revenue ($000)	$1,094,429	$1,063,735	$1,083,422	$1,161,999	$1,048,026
Fund Balance ($000)	$469,324	$469,173	$441,217	$467,922	$557,121
Cash Balance ($000)	$373,619	$434,618	$389,393	$402,574	$497,851
Fund Balance as a % of Revenues	42.9%	44.1%	40.7%	40.3%	53.2%
Cash Balance as a % of Revenues	34.1%	40.9%	35.9%	34.6%	47.5%
Debt/Pensions					
Net Direct Debt ($000)	$1,412,537	$1,481,049	$1,395,105	$1,337,406	$1,211,088
3-Year Average of Moody's ANPL ($000)	$1,807,200	$1,869,379	$1,941,024	$2,030,145	$2,138,491
Net Direct Debt / Full Value (%)	1.8%	1.9%	1.8%	1.5%	1.4%
Net Direct Debt / Operating Revenues (x)	1.3x	1.4x	1.3x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.3%	2.4%	2.4%	2.3%	2.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	1.8x	1.8x	1.7x	2.0x

Sources: Moody's Investors Service, US Census Bureau, Cuyahoga County audited financial statements

Exhibit 2

Cuyahoga (County of), OH					
Credit Background					
Pledged Revenues	Sales tax				
Legal Structure					
Additional Bonds Test	3.00				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	No DSRF				
MADS Coverage					
2020 MADS Coverage (x)	5.2x				
Trend Analysis					
	2016	2017	2018	2019	2020
Debt Outstanding ($000)	146,730	287,405	285,425	281,255	229,710
Revenues ($000)	277,003	262,295	258,375	293,615	263,394
Annual Debt Service Coverage (x)	42.6x	40.3x	22.3x	17.6x	11.6x

Source: Cuyahoga County audited financial statements

Profile

Located in northeast Ohio (Aa1 stable), along the shores of Lake Erie, Cuyahoga County is the second largest county in the state with a population of roughly 1.3 million. Approximately 30% of the county's population resides within the City of Cleveland, the county seat. The county is governed by an executive-council form of government, and county operations include economic development, health and human services, public safety, judicial and general governmental functions.

Detailed credit considerations

Economy and tax base: economic engine of northeast Ohio demonstrating solid tax base gains

Cuyahoga County's economy and tax base will continue to demonstrate resiliency through the remainder of the coronavirus pandemic based on the county's recovering sales tax collections, average unemployment rate relative to the nation, and increasing property values. The county serves as the economic hub of northeast Ohio and is anchored by a multitude of institutions, including the county's largest single employer, the Cleveland Clinic (Aa2 stable; approximately 46,000 employees). County residents benefit from a diversity of employment opportunities throughout the metropolitan area, and is home to four Fortune 500 companies including Progressive Insurance (Aa2 stable; approximately 13,000 employees), headquartered in the Village of Mayfield. The county maintains a relatively strong pool of educated workers which will continue to contribute to its expanding white-collar industries and help to dampen the overall impacts of fluctuating manufacturing activity. However, over the long term the county's economic potential will be somewhat restricted by its stagnant population trends. At 3.9% in November 2021 the county's unemployment rate matched that of the nation overall.

The county's tax base is expanding, despite the impact of the pandemic on certain real estate sectors. Recent tax base growth has largely been driven by appreciation on the county's residential real estate, as growth to commercial real estate values has slowed because of the pandemic. Currently valued at a sizable $99.4 billion, Cuyahoga's tax base recorded a 13.1% increase to its assessed value during its triennial reassessment for tax year 2022. Increases to assessed value will be modest over the next two years until the county's next three-year reassessment is conducted for tax year 2025.

Financial operations and reserves: solid operating fund balance and liquidity bolstered by the receipt of significant federal stimulus

The county's operations will remain steady over the near to medium term given its combination of solid reserves and rebounding sales tax collections, along with its receipt of significant amounts of COVID-related federal stimulus. Cuyahoga's fiscal 2022-2023 biennium budget is balanced and is not reliant on the use of American Rescue Plan Act (ARPA) funding which management expects to hold in a segregated fund for the time being until a formal spending plan is developed. The county will receive a total of $240 million in ARPA stimulus which it must allocated by the close of fiscal 2024. The funding provides ample resources to counteract any further pandemic related expenses, as well as an opportunity to offset losses to certain revenue steams because of COVID-related economic impacts.

While audited information for fiscal 2021 will not be available for many months, county officials report a cash-basis general fund deficit of approximately $12.1 million for the year. The deficit was much less than originally anticipated as sales tax collections, which make up a little more than 50% of general fund revenue, significantly exceeded original budget estimates by roughly 21%. The relatively modest deficit was primarily a result of one-time capital expenditures.

The ability to redirect spending away from the general fund enabled the county to achieve a sizable $58.8 million audited general fund surplus in fiscal 2020, increasing its available year-end balance to $252.6 million, equal to an ample 54.7% of general fund revenue. Cuyahoga closed fiscal 2020 with an available operating fund balance of $557.1 million, which includes reserves held in the county's various health and human services and debt service funds, in addition to the general fund. The total operating fund surplus of $94 million over fiscal 2019 was also driven in part through proactive steps taken by management including reductions to department budgets, mandatory furloughs and a hiring freeze.

Liquidity

The county's robust internal liquidity provides ample buffer to absorb persistent revenue pressure. At the close of fiscal 2020 the county held $836.9 million in governmental-wide cash and investments, including $497.9 million in its core operating funds, equal to a sound 47.5% of operating revenue.

Debt, pensions, and OPEB: moderately high leverage with expected future borrowing needs

The county's above average combined leverage of debt and unfunded retiree-benefit liabilities may restrict its credit upside given the expectation of future issuances of debt for capital projects. Cuyahoga County is in the process of selling approximately $190.9 million in sales tax backed revenue bonds to finance baseball stadium renovations. The renovations will take place at Progressive Field in downtown Cleveland which is the home of Major League Baseball's (MLB) Cleveland Guardian franchise. The ballpark originally opened in 1994 and is owned and operated by Gateway Economic Development Corporation of Greater Cleveland (Gateway), which was established in 1990 via a three-party agreement between the Gateway, the City of Cleveland and Cuyahoga County. The city and county each appoint equal members to Gateway's board of trustees. Renovations to the ballpark consist of six projects to enhance the fan and players experience. The renovations are estimated to take approximately five years to complete.

Although the county's upcoming Series 2022A and Series 2022B sales tax revenue bonds are secured by sales taxes, the county anticipates paying for debt services through alternative sources. These sources include public sector contributions from the City of Cleveland and Cuyahoga County as outlined in a cooperative agreement, as well as lease payments from the Cleveland Guardians baseball franchise. The Guardians extended its lease with Gateway for an additional 15 years through 2036, which matches the life of the bonds. Public sector contributions from the City of Cleveland include general fund and parking revenue, as well as a portion of the ballpark's admission tax and naming rights. Contributions from the county include general fund and hotel tax contributions. A portion of excess revenue generated from these sources will be diverted to a capital repair fund for the ballpark to provide funding for capital maintenance, repairs, and further upgrades when needed.

Following the issuance of the stadium bonds the county's direct debt burden will stand at a moderate 1.4% of full value and 1.4x operating revenue. Cuyahoga's debt leverage may grow further in coming years as it continues to evaluate the need for a new county jail facility. In addition to the debt, the county carries long term obligations associated with its participation in two statewide cost-sharing defined benefit pension and OPEB plans. Its Moody's three-year adjusted net pension liability (ANPL) through fiscal 2020 is 2.2% of full value and 2.0x operating revenue, while its adjusted net OPEB liability is an additional 0.9x operating revenue. Despite the above average all-in leverage, annual fixed costs have remained mostly manageable, totaling $174.3 million in fiscal 2020, equal to roughly 17% of operating revenue.

Legal security

The county's upcoming sales tax backed revenue bonds are ultimately secured by a pledge of the county's sales tax receipts. The bonds will be issued on parity with sales tax backed revenue debt previously issued in 2014, 2015, 2016, and 2017. To secure payment of debt service on all parity bond issues the county has further established a trustee intercept agreement, whereby county sales tax collected by the State of Ohio is directly deposited to a trustee on a monthly basis, pursuant to trust indenture. The trustee, Huntington National Bank (A3 stable), is required to deposit one-fourth of the next interest payment and one-tenth of the next principal payment to the bond retirement fund. Excess monthly sales taxes are then transferred to the county for general operating purposes.

Parity issued sales tax revenue bonds also include a relatively strong additional bonds test (ABT). It requires that, on average, the most recent 24 months of collections from the county's 1% permanent sales tax provide 3.0x coverage of maximum annual debt service on existing and proposed bonds. There is no debt service reserve requirement.

In addition to its sales tax debt Cuyahoga's debt portfolio also consists of a number of different securities types including GOLT and nontax revenue bonds, along with outstanding certificates of participation (COPs). The county's GOLT bonds are secured by its full faith and credit and pledge to levy ad valorem property taxes under the state's 10-mill limitation. The nontax revenue bonds are secured by a pledge the county's nontax revenue. Outstanding COPs are secured by lease payments that are subject to annual appropriation. Additionally, the county has a relatively small amount of appropriation guarantee debt secured by revenue received by the county from a developer pursuant to a loan agreement between the two parties.

Debt structure

All of the county's debt is fixed rate. Approximately 65% of bonded debt principal is set to be retired over the next ten years. The county's sales tax debt, inclusive of the upcoming offerings, fully matures in 2038, though the life of the new bonds will correspond with the life of the lease contract with the Cleveland Guardians which runs through 2036.

Collections from the county's sales tax provide ample coverage of annual debt service. Fiscal 2020 audited collections of $263.3 million provide for 6.5x maximum annual debt service (MADS) coverage on outstanding and upcoming sales tax revenue bonds. The county currently levies a 1.25% sales tax, 1.0% of which is continuous, while the remaining 0.25% is in effect until 2027. Neither is subject to appeal and the county has indicated it will likely reauthorize the temporary 0.25% rate before expiration. In any event coverage will remain ample as collections of the 1.0% rate in fiscal 2020 provided for 5.2x MADS coverage.

Debt-related derivatives

The county is not party to any derivative agreements.

Pensions and OPEB

Most county employees are members of the Ohio Public Employees Retirement System (OPERS), with a very small share participating 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. Despite the flexibility to contain the plan's liabilities, Cuyahoga's exposure to the two pension plans will likely remain above average relative to its highly rated peers who participate in either stronger funded defined benefit pension plans or those who offer only defined contribution plans.

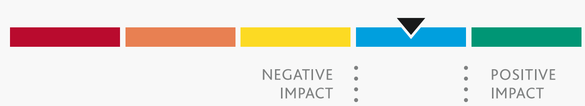
ESG considerations

Cuyahoga (County of) OH's ESG Credit Impact Score is neutral-to-low CIS-2.

Exhibit 3
ESG Credit Impact Score

CIS-2

Neutral-to-Low



For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Cuyahoga County's ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting neutral to low exposure to environmental and social risks, as well as a strong governance profile.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	S-2	G-1
Neutral-to-Low	Neutral-to-Low	Positive

Source: Moody's Investors Service

Environmental

The county's E issuer profile score is neutral to low (**E-2**), reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, natural resources management, and waste and pollution.

Environmental considerations are not a material driver of the county's credit profile. Located in northeast Ohio the county has a continental climate that experiences four distinct seasons. The county will experience long term benefits from its ability to access an abundance of fresh water from Lake Erie. According to data from Moody's affiliate, Moody's ESG Solutions, the county has low exposure to water stress, medium exposure to heat stress, and high exposure to extreme rainfall events relative to counties nationally. While the county has had flooding events, they have been constrained and have had little financial impact on the county. The regional sewer district is currently undertaking a massive capital plan to increase storm sewer capacity. Neither environmental, climate nor weather related events will likely have material impacts to the county's operations or credit profile for the foreseeable future.

Social

The S issuer profile score is neutral to low (**S-2**). The county's weak demographic trends are balanced by its access to basic services, employment opportunities, higher education, and housing.

Cuyahoga County has a diverse set of social considerations given its scale. The county is home to affluent suburban communities along with pockets of above average poverty, primarily within its urban communities in and around the City of Cleveland. Over time the county is likely to face rising costs to provide social services. Drug overdose rates in Cuyahoga County are significantly higher than the nation, and officials are currently weighing long-term solutions to crowding at the county jail. In October 2019, four drug companies announced settlements with Cuyahoga County totaling nearly $179 million that will fund addiction prevention and treatment services to curb the social and economic costs of opioids. The money is held in a dedicated opioid mitigation fund and is not available for general fund operations. While these social issues will require resources to address, the county will continue to derive benefits from its position as an established economic center with comprehensive basic services.

Governance

The county's G issuer profile score is positive (**G-1**), reflecting strengths in the institutional structure. The score also considers the county's robust policy credibility, transparency, and strong management and budgeting practices. The score also incorporates the county's moderate institutional structure.

Cuyahoga County's management has demonstrated its capacity to sustain consistent operations and maintenance of healthy reserves. On the revenue side the county has the authority to increase its local sales tax another 0.25% up to the state cap of 1.5%. However, any increase would be subject to repeal by voter referendum. The county has two health and human services property tax levies subject to periodic voter approval. The county gained voter approval in April 2020 for an increase to one of the existing property tax levy to support health and human services and prevent additional draws on reserves. Regarding expenditures the county swiftly responded to the curtail budgetary impacts caused by the pandemic by temporarily limiting departmental spending. The county negotiates with 35 separate bargaining units and recent salary increases for union and non-union employees have been approximately 2% over the past few years. In the county's judgment, relations with the its various bargaining units and employees have been and are currently considered good.

Ohio counties have an institutional framework score of "A," or moderate. County revenue are moderately predictable as sales taxes tend to dominate general fund revenue, but more diversified streams fund overall operations. Local sales tax rates are capped at 1.5% and raising property tax rates requires voter approval. Revenue and expenditures tend to be predictable.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 5

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$99,444,471	Aaa
Full Value Per Capita	$78,624	Aa
Median Family Income (% of US Median)	88.7%	A
Notching Adjustments:[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	53.2%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	6.0%	A
Cash Balance as a % of Revenues	47.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	4.4%	A
Notching Adjustments:[2]		
Contingent Liability Risk Given County Owership of MetroHealth System		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.01x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.2%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.0x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Sources: Moody's Investors Service, US Census Bureau, Cuyahoga County audited financial statements

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