MOODY'S INVESTORS SERVICE

CREDIT OPINION
26 September 2022

Send Your Feedback

Contacts

Andrew T. Van Dyck Dobos +1.312.706.9974
AVP-Analyst
andrew.vandyckdobos@moodys.com

David Levett +1.312.706.9990
VP-Senior Analyst
david.levett@moodys.com

Cuyahoga (County of), OH

Update to credit analysis

Summary

Cuyahoga County's (Aa2 stable) solid credit profile has demonstrated resilience throughout the pandemic period and its strong financial position is likely to be sustained over the next few years. The county's most pressing credit challenge is the expectation of future borrowing needs which will increase the county's already above average long term leverage. Our credit view further reflects the county's exposure to contingent liability debt of MetroHealth System (Baa2 stable), a component unit of the county.

Credit strengths

» Very large tax base encompassing the City of Cleveland (Aa3 stable) and many surrounding suburbs

» Healthy financial position supported by strong fiscal management, rebounding sales tax collections and significant allocation of federal aid

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 with additional borrowing needs

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 receipt of significant federal aid. Additionally, the county's nontax tax collections will continue to provide strong debt service coverage on its new and outstanding nontax 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

» Significant narrowing or operating fund balance or liquidity, or weakened financial position of MetroHealth that requires increased governmental support

» Substantial increase in leverage

Key indicators

Exhibit 1

Cuyahoga (County of) OH

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value ($000)	$78,924,984	$79,652,199	$87,247,442	$87,280,602	$87,925,138
Population	1,257,401	1,253,783	1,247,451	1,241,475	1,241,475
Full Value Per Capita	$62,768	$63,529	$69,941	$70,304	$70,823
Median Family Income (% of US Median)	90.0%	89.5%	88.7%	88.0%	88.0%
Finances					
Operating Revenue ($000)	$1,063,735	$1,083,422	$1,161,999	$1,048,026	$1,237,668
Fund Balance ($000)	$469,173	$441,217	$467,922	$557,121	$705,127
Cash Balance ($000)	$434,618	$389,393	$402,574	$497,851	$569,796
Fund Balance as a % of Revenues	44.1%	40.7%	40.3%	53.2%	57.0%
Cash Balance as a % of Revenues	40.9%	35.9%	34.6%	47.5%	46.0%
Debt/Pensions					
Net Direct Debt ($000)	$1,481,049	$1,395,105	$1,337,406	$1,211,088	$1,128,382
3-Year Average of Moody's ANPL ($000)	$1,869,379	$1,941,024	$2,030,145	$2,138,491	$3,366,301
Net Direct Debt / Full Value (%)	1.9%	1.8%	1.5%	1.4%	1.3%
Net Direct Debt / Operating Revenues (x)	1.4x	1.3x	1.2x	1.2x	0.9x
Moody's - ANPL (3-yr average) to Full Value (%)	2.4%	2.4%	2.3%	2.5%	3.8%
Moody's - ANPL (3-yr average) to Revenues (x)	1.8x	1.8x	1.7x	2.0x	2.7x

Sources: US Census Bureau, Cuyahoga (County of) OH's financial statements and Moody's Investors Service

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 1.2 million anchored by the City of Cleveland. 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 labor force indicators and sales tax receipts are trending favorably. The county's labor force participation is steadily improving after contracting by nearly 5% during 2020 and is now just 1% below pre-pandemic levels. Its unemployment rate continues to moderate standing at 5.5% as of July 2022. Cuyahoga's resiliency is supported by its role as the economic hub of northeast Ohio along with the presence of multiple institutions, including the Cleveland Clinic (Aa2 stable; approximately 51,000 employees), which help to anchor the region's employment base. 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 12,300 employees), headquartered in the Village of Mayfield.

Recent tax base growth has largely been driven by appreciation on the county's residential real estate, as growth to commercial real estate values, while still positive, remains somewhat subdued. 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. The county's sales tax trends are another positive economic indicator as collections rebounded nicely in fiscal 2021 following a decrease of roughly 10% in fiscal 2020 as compared to fiscal 2019. Collections on the county's 1.25% sales tax grew by a robust 18% in fiscal 2021, reaching a historical peak of $311 million and additional near term growth is likely given the impact of rising inflation. Officials conservatively project annual collection increases of 2% over the next two years.

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

Cuyahoga County strong operating reserves provide significant cushion against potential budgetary challenges that may arise. The county's recently released fiscal 2021 audit depicts a $91.6 million general fund surplus for the year driven by stronger than anticipated sales tax collections combined with the receipt of $120 million in stimulus funding from the American Rescue Plan Act (ARPA). The county has received a total of $240 million over the two rounds of stimulus funding. Cuyahoga County deposited its stimulus in its general fund to by used for general government operations under the revenue loss expenditure category in order to free up other county funds for capital, staffing, and program initiatives. The fiscal 2021 surplus boosted year-end available general fund reserves to $344.7 million, equal to a robust 57% of general fund revenue. Across all operating funds, which includes reserves held in the county's various health and human services and debt service funds, in addition to the general fund, the county closed fiscal 2021 with an available balance of $705.1 million.

The county's fiscal 2022 budget is essentially balanced and operations have been supported by the county's rebounding sales tax receipts. Sales tax collections comprised roughly 45% of general fund revenue in fiscal 2021, followed by intergovernmental aid and charges for services at 29% and 16% respectively. While property taxes make up about 5% of general fund revenue it supports roughly a quarter of total governmental operations, mostly with regards to the county's various health and human services programs. Cuyahoga's strong governmental balance sheet offers a buffer against a potential recession which could contribute to decreased sales tax collections or a reversal of valuation gains. On the flip side the current inflationary environment could temporarily boost sales tax trends given rising prices on consumer goods and services.

Cuyahoga County subsidizes the operation of The MetroHealth System, a public healthcare system that includes an acute care hospital housing a Level 1 Adult Trauma and Burn Center, a skilled nursing facility and 20 locations throughout the community. MetroHealth's scale of operation is similar to that of the county's governmental operations overall with roughly $1.5 billion in operating revenue in fiscal 2021. In fiscal 2021 the county provided $32.4 million in financial support to the system via two property tax levies. While the subsides can be used to support any health and human services programs, the allocation has been and is expected to be stable. For more information on MetroHealth please see our updated credit opinion following its recent upgrade to Baa2 stable. While operating support of the system is minor, the health operations create enterprise risk for the county because the healthcare sector is competitive and challenged. Potential sources of volatility in system performance include attracting and retaining employees as well as fluctuations in uncompensated care volumes and reimbursement rates.

Liquidity

The county's cash position is likely to hold steady over the near term given the anticipation of balanced operations in fiscal 2022. At the close of fiscal 2020 the county held $1.0 billion in governmental-wide cash and investments, including $569.8 million in its core operating funds, equal to a sound 46% of operating revenue.

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

Cuyahoga's leverage is above average for a county and may grow further given a major capital project being considered. The county is in the process of selling approximately $30.6 million in nontax backed revenue bonds to help finance renovations and improvements to the county-owned convention center. The county will contribute $8 million in general fund reserves and $9 million in capital funds from the Cuyahoga County Convention Facilities Development Corporation (CCCFDC) toward the roughly $50 million project. Renovations include expanding the size of the convention center's junior ballroom and adding an outdoor terrace.

Following the issuance of the upcoming bonds the county's direct debt burden will stand at a moderate 1.3% of full value and 1.1x 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. Recent reports suggest a new comprehensive county jail complex could cost as much as $750 million, potentially increasing the county's debt burden by nearly 60%. The impact of the debt profile will be considered in the context of the trajectory of other credit factors including trends in the tax base and revenues.

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 2021 is 2.3% of full value and 1.9x operating revenue, while its adjusted net OPEB liability is an additional 0.1x operating revenue. Despite the above average all-in leverage, annual governmental fixed costs have remained mostly manageable, totaling roughly $208 million in fiscal 2021, equal to about 13% of total governmental revenue.

Legal security

The county's nontax revenue bonds are special obligations payable from its pledge of nontax revenue, which consists primarily of charges for services, investment earnings, intergovernmental grants and reimbursements, fines and forfeitures and license and permit fees. Nontax revenue collections for fiscal 2021 provided 4.7x coverage on the projected maximum annual debt service (MADS) on nontax revenue debt, inclusive of the upcoming new bonds.

In addition to its nontax revenue debt Cuyahoga's debt portfolio also consists of a number of different securities types including GOLT and sales tax 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 sales tax revenue bonds are payable from the county's pledge of its sales tax receipts. Fiscal 2021 sales tax collections provided for 7.8x MADS coverage on outstandings sales tax-backed debt. Outstanding COPs are payable from lease payments that are subject to annual appropriation. Additionally, the county has a relatively small amount of appropriation guarantee debt payable from 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 two-thirds of bonded debt principal is set to be retired over the next ten years.

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 2

ESG Credit Impact Score

CIS-2

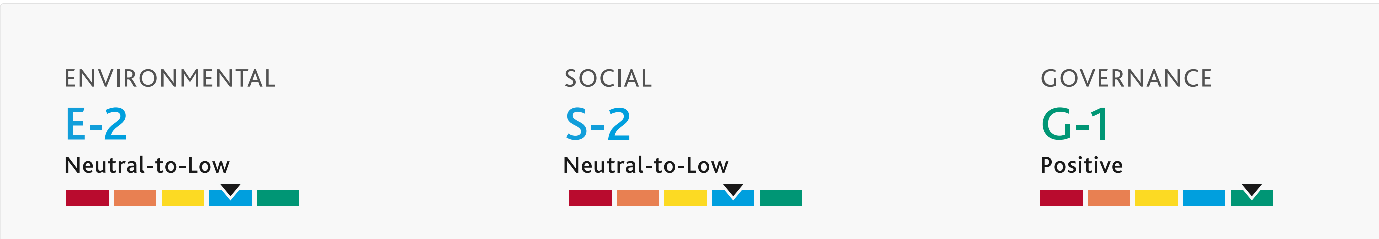
Neutral-to-Low

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 3
ESG Issuer Profile Scores



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.

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.

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.

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 factors 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 4

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	$80,102	Aa
Median Family Income (% of US Median)	88.0%	A
Finances (30%)		
Fund Balance as a % of Revenues	57.0%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	19.1%	Aa
Cash Balance as a % of Revenues	46.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	15.9%	Aa
Outsized Contingent Liability Risk		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.04x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.3%	Aa
Net Direct Debt / Operating Revenues (x)	1.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.3%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.9x	A
	Scorecard-Indicated Outcome	Aa3
	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: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

REPORT NUMBER 1342888

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Moody's
INVESTORS SERVICE