MOODY'S RATINGS



CREDIT OPINION
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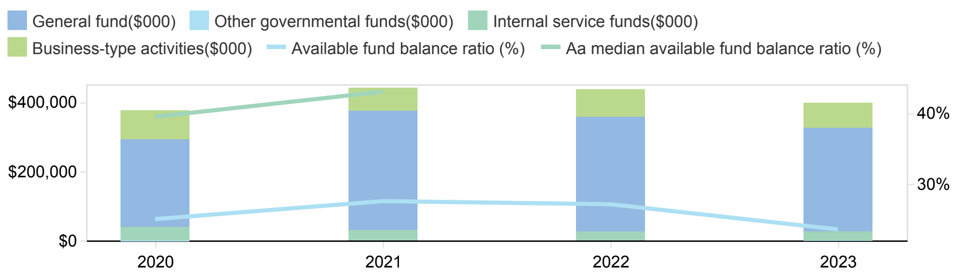
# Cuyahoga County, OH

## Update to credit analysis


## Summary

Cuyahoga County's (Aa2 stable) credit profile incorporates the county's role as a regional economic center in northern Ohio (Aaa stable) that has supported strong growth in sales tax receipts in recent years. Solid revenue trends and good financial management will continue to support a healthy financial position, even with planned spending of about $98 million in ARPA funds in fiscal 2024. The county's long-term leverage is moderate but will increase over the next year as the county issues about $750 million in debt to fund a new jail facility. The county's credit profile incorporates some risks associated with the MetroHealth System (Baa2 stable), a component unit of the county.


Exhibit 1
**Fund Balance**




*Source: Moody's Ratings*

## 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, growing 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 outlook is stable because the county's local economy will remain strong and its financial position will remain healthy, net of ARPA-related drawdowns. Long-term leverage will increase over the next couple years but remain appropriate for the current rating category given ongoing revenue growth.

## Factors that could lead to an upgrade

» Maintenance of long-term liabilities ratio below 200%

» Strengthening of economic indicators, such as median household income and full value per capita, to levels more in-line with similarly rated peers

## Factors that could lead to a downgrade

» Narrowing of fund balance and liquidity below current expectations

» Increase in long-term liabilities above 350%

» Material weakening of MetroHealth's credit quality, given the governance connections with the county

## Key indicators

Exhibit 2
**Cuyahoga (County of) OH**

| | 2020 | 2021 | 2022 | 2023 | Aa Medians |
|---|---|---|---|---|---|
| **Economy** | | | | | |
| Resident income ratio (%) | 85.2% | 85.0% | 85.9% | N/A | 97.8% |
| Full Value ($000) | $87,280,602 | $87,925,138 | $99,444,471 | $100,196,370 | $8,736,359 |
| Population | 1,241,475 | 1,263,667 | 1,256,620 | N/A | 90,964 |
| Full value per capita ($) | $70,304 | $69,579 | $79,136 | N/A | N/A |
| Annual Growth in Real GDP | -3.6% | 5.0% | 2.0% | N/A | 4.9% |
| **Financial Performance** | | | | | |
| Revenue ($000) | $1,492,936 | $1,597,532 | $1,610,920 | $1,676,602 | $97,580 |
| Available fund balance ($000) | $373,337 | $439,941 | $436,620 | $395,068 | $43,698 |
| Net unrestricted cash ($000) | $942,658 | $1,110,019 | $1,101,137 | $1,044,342 | $68,628 |
| Available fund balance ratio (%) | 25.0% | 27.5% | 27.1% | 23.6% | 43.0% |
| Liquidity ratio (%) | 63.1% | 69.5% | 68.4% | 62.3% | 74.4% |
| **Leverage** | | | | | |
| Debt ($000) | $1,279,310 | $1,190,375 | $1,353,368 | $1,235,577 | $46,820 |
| Adjusted net pension liabilities ($000) | $2,347,974 | $2,630,426 | $2,242,330 | $1,686,459 | $103,575 |
| Adjusted net OPEB liabilities ($000) | $385,138 | $100,644 | $43,184 | $25,734 | $7,091 |
| Other long-term liabilities ($000) | $47,846 | $48,957 | $45,461 | $45,398 | $3,981 |
| Long-term liabilities ratio (%) | 272.0% | 248.5% | 228.7% | 178.5% | 190.3% |
| **Fixed costs** | | | | | |
| Implied debt service ($000) | $97,325 | $91,615 | $83,493 | $94,519 | $3,257 |
| Pension tread water contribution ($000) | $58,874 | $44,486 | $30,611 | $74,516 | $2,211 |
| OPEB contributions ($000) | $1,616 | $185 | $198 | $278 | $186 |
| Implied cost of other long-term liabilities ($000) | $3,117 | $3,426 | $3,434 | $3,175 | $282 |
| Fixed-costs ratio (%) | 10.8% | 8.7% | 7.3% | 10.3% | 7.1% |

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 real GDP annual growth metric cited above is for the Cleveland-Elyria, OH Metropolitan Statistical Area Metropolitan Statistical Area.
*Sources: US Census Bureau, Cuyahoga (County of) OH's financial statements and Moody's Ratings, US Bureau of Economic Analysis*

## Profile

Located in northeast Ohio, Cuyahoga County is the second largest county in the state with a population of roughly 1.2 million. Cleveland is 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. The county also subsidizes a small part of the operations for MetroHealth, a safety-net health system with multiple facilities throughout the county. The health system's operations are roughly the same size, based on annual operating revenue, as the county's operations.

## Detailed credit considerations

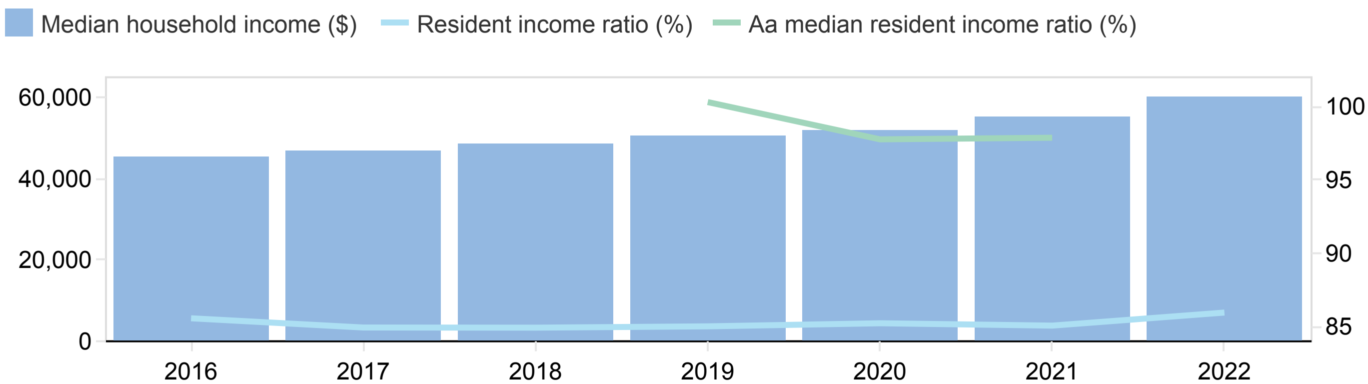
### Economy: resilient local economy will remain stable

Cuyahoga County's labor force indicators and sales tax receipts will continue to trend positively given the breadth of the region's employment centers. Cuyahoga County is the economic hub of northeast Ohio. Multiple institutions, including the Cleveland Clinic (Aa2 stable; approximately 51,000 employees), help to anchor the region's employment base. County residents benefit from a diversity of employment opportunities throughout the metropolitan area, which is home to four Fortune 500 companies including Progressive Insurance (Aa2 stable; approximately 12,300 employees), headquartered in the Village of Mayfield. The county's unemployment rate consistently tracks in line with other large US counties.

The county's strong tax base growth has largely been driven by appreciation of the county's residential real estate. Currently valued at a sizable $101 billion, the county's tax base recorded a 13% increase to its assessed value during the triennial reassessment for tax year 2022. A more modest increase of about 1% occurred in the most recent year. The county expects the 2025 sexennial reassessment to reflect significant tax base growth.

The county's sales tax trends are another positive economic indicator as collections have strengthened considerably since the height of the pandemic. Resident incomes have also improved in recent years.

Exhibit 3
**Resident Income**




*Source: Moody's Ratings*

## Financial operations: financial position will remain solid despite planned ARPA-related draws

The county's financial position is expected to remain strong, benefiting from sound revenue performance. Available fund balance declined by about $42 million in fiscal 2023, though this reflects COVID relief aid spending and one time capital expenditures. At the close of fiscal 2023, the county had an available fund balance of $395 million (24% of revenue). The county's reserves total more than 50% of revenue when including funds that are restricted for essential county purposes like health and human services, community development, health care programs and judicial services.

The 2024 and 2025 biennial budget is largely balanced after netting out the remaining ARPA funds. Total spending of ARPA funds will approximate $98 million in fiscal 2024. County employees will receive a 2% cost of living adjustment in each of the next two years.

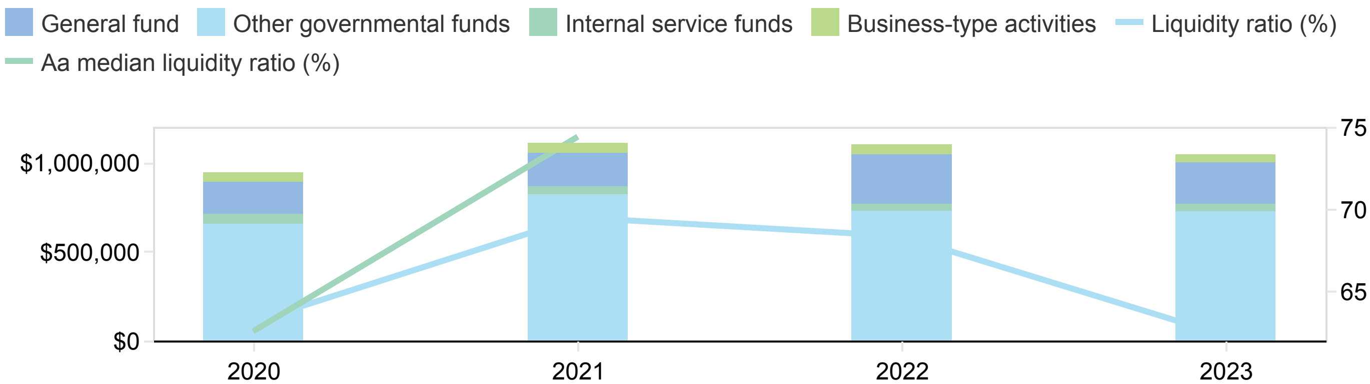
Property taxes and sales tax receipts account for the majority of governmental revenue, each accounting for a little over 40% of general fund revenue, respectively. The county's sales tax collections have strengthened considerably in recent years including an 18% increase in 2021 followed by 5% and 4% increases in 2022 and 2023, respectively. Officials budget for annual collection increases of 4%.

Cuyahoga County subsidizes the operation of The MetroHealth System, a public health care system. MetroHealth's scale of operation is similar to that of the county. The size of the health system is significant at about $1.6 billion in revenue, which approximates the county's revenue for the same year. The county recently increased its property tax subsidy to the health system by $2 million; the annual subsidy now totals $35 million. The subsidies can be used to support any health and human services programs. The county's annual allocation has been and is expected to remain stable. While operating support of the system is modest relative to the budget, the health operations create some degree of enterprise risk for the county. 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 sound and will remain healthy despite the planned spending of remaining ARPA proceeds through September 2024. The county closed fiscal 2023 with net cash of $1.0 billion or a healthy 62% of revenue. The difference between the county's cash position and its available fund balance is attributable to a substantial amount of fund balance labeled as restricted, which is not included in the available reserve amount. ARPA funds were deposited into the county's general fund when received. As of fiscal 2023, the county's cash position net of the $98 million in remaining ARPA proceeds was $884 million or a strong 56% of countywide revenue.

Exhibit 4
**Cash**

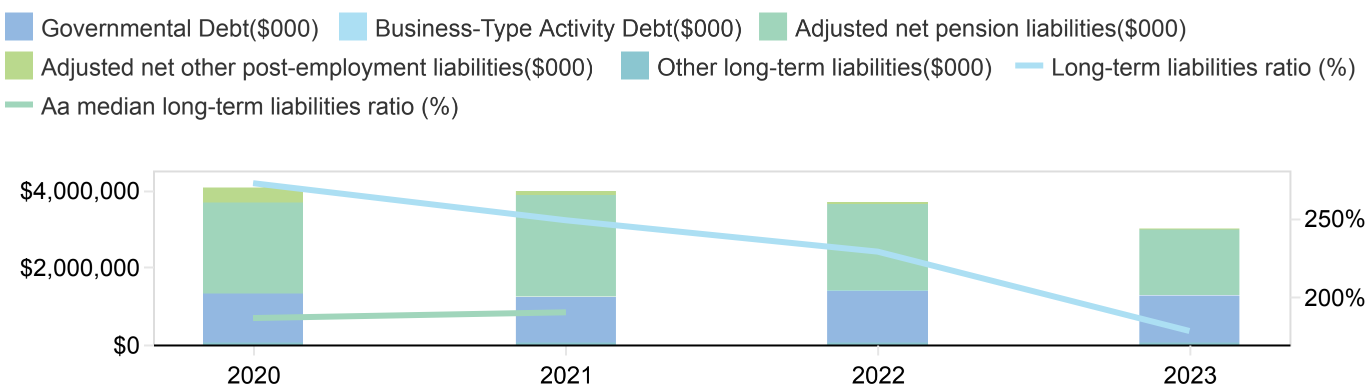



*Source: Moody's Ratings*

## Leverage: future debt planned to finance a new jail, but liabilities will remain affordable

Despite expected growth in leverage, the county's liabilities should remain affordable. Within the next few years, the county will issue about $750 million in debt to finance a new jail facility. In addition to bonded debt, the county carries long term obligations associated with its participation in two statewide cost-sharing defined benefit pension and OPEB plans. As of fiscal 2023, the county's long-term leverage, including post employment benefit liabilities, was 179% of revenue. Inclusive of the planned new debt, the county's leverage would increase to approximately 230% of revenue, which is above the leverage of similarly rated entities. However, the new debt should be affordable given expected revenue growth.

Exhibit 5
**Total Primary Government - Long Term Liabilities**




*Source: Moody's Ratings*

### Legal security

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 non-tax revenue bonds are secured by the county's pledge of non-tax revenue, which consists primarily of charges for services, investment earnings, intergovernmental grants and reimbursements, fines and forfeitures and license and permit fees.

The sales tax revenue bonds are secured by a senior lien on revenue collected from the county's current 1.25% sales tax.

The lease appropriation bonds are secured by lease payments that are subject to annual appropriation

The appropriation guarantee bonds are secured by revenues received by the county from a developer (Flats East Development LLC) pursuant to a loan agreement between the two pa ties.

The county and developer have also entered into a guaranty agreement, pursuant to which the county provides an annually renewable guaranty of debt service payments, which is subject to appropriation by the county

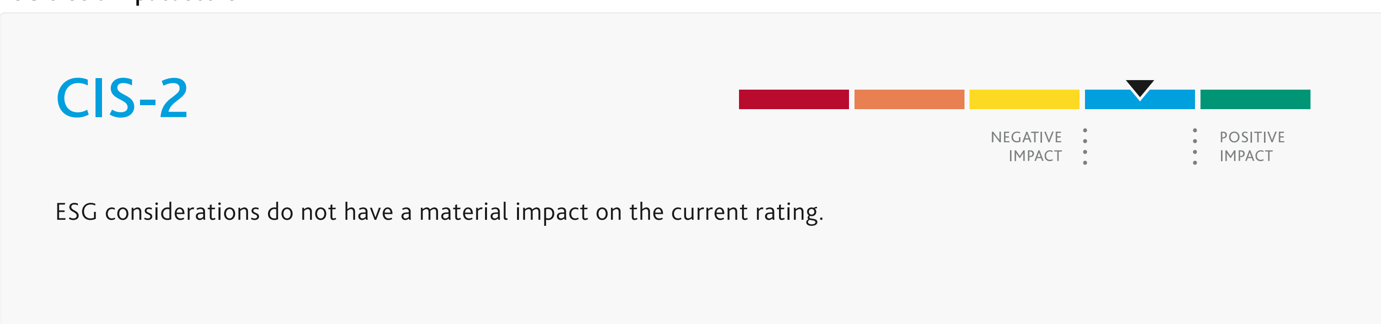
**Debt structure**
All of the county's debt is fixed rate. About two-thirds of bonded debt principal is set to be retired over the next ten years.

**Debt-related derivatives**
The county is not a party to any derivative agreements.

**Pensions and OPEB**
Counties in Ohio participate in the Public Employees Retirement System (OPERS). Participating governments make specific contributions as a percentage of active employee salaries. Ohio has a somewhat unique statutory structure surrounding pensions: each year, the retirement systems must project whether they are on pace to amortize liabilities within 30 years, and if not, a legislative remediation process begins that includes the flexibility to curtail certain benefits. To the benefit of Ohio counties' credit quality, their contribution requirements have remained stable, with changes to improve funding focused on changes to retirement benefits. However, in the event that OPERS were to fail the statutory amortization test due an event such as a steep investment loss, there is no guarantee that counties will again be spared from contribution hikes.

## ESG considerations

Exhibit 6
**ESG credit impact score**




*Source: Moody's Ratings*

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 7
**ESG issuer profile scores**


*Source: Moody's Ratings*

### 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 (**G-1**), reflecting the county's robust policy credibility, transparency, and strong management and budgeting practices. Cuyahoga County's management has demonstrated its capacity to sustain consistent operations and maintenance of healthy reserves through a variety of economic conditions. The county publishes interim financials which supports its sound transparency and disclosure.

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 Cities and Counties 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.

Exhibit 8

**Cuyahoga (County of) OH**

| | Measure | Weight | Score |
|---|---|---|---|
| **Economy** | | | |
| Resident income ratio | 85.9% | 10.0% | A |
| Full value per capita | 80,422 | 10.0% | A |
| Economic growth metric | -0.7% | 10.0% | Aa |
| **Financial Performance** | | | |
| Available fund balance ratio | 23.6% | 20.0% | A |
| Liquidity ratio | 62.3% | 10.0% | Aaa |
| **Institutional Framework** | | | |
| Institutional Framework | Aa | 10.0% | Aa |
| **Leverage** | | | |
| Long-term liabilities ratio | 178.5% | 20.0% | Aa |
| Fixed-costs ratio | 10.3% | 10.0% | Aa |
| **Notching factors** | | | |
| No notchings applied | | | |
| Scorecard-Indicated Outcome | | | Aa3 |
| **Assigned Rating** | | | **Aa2** |

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Cleveland-Elyria, OH Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
*Sources: US Census Bureau, Cuyahoga (County of) OH's financial statements and Moody's Ratings*

# Appendix

Exhibit 9
**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 - American Community Survey 5-Year Estimates<br>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 - American Community Survey 5-Year Estimates |
| 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 Cities and Counties Methodology .
*Source: Moody's Ratings*

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