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Ratings

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Summary:

Cuyahoga County, Ohio; Appropriations; General Obligation; Miscellaneous Tax

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US$50.0 mil econ dev rev bnds (Rock And Roll Hall Of Fame Expansion Project) ser 2024A due 12/01/2053		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Cuyahoga County, Ohio's $50 million series 2024A economic development revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the county's previously issued general obligation (GO) and nontax revenue debt and its 'AA-' long-term rating on the county's previously issued appropriation-secured debt.
- The outlook is stable.

Security

Certain nontax revenue secures the series 2024A bonds, but the county is legally permitted to use all available revenue to pay debt service. Given this, we rate the debt at the same level as our view of the county's general creditworthiness, as reflected by an unlimited-tax GO pledge. We believe that the county's ability to pay these obligations is closely tied to its operations, and we see no limits on the fungibility of resources available for debt service.

Bond proceeds will be used to finance an expansion to the Rock and Roll Hall of Fame and Museum (the Rock Hall). The county will loan the proceeds to the Rock Hall through a loan agreement, and in return will receive loan payments that are structured to cover debt service on the bonds (projected to be $3.3 million annually). The Rock Hall intends to make loan payments from its net operating revenue. In the event of a shortfall in net operating revenue, the county has the right to withhold bed tax revenue due to the Rock Hall through a Bed Tax Agreement. (Annual bed tax distributions to the Rock Hall total about $2 million.) The final backstop is the county's nontax revenue pledge, upon which our rating is based. The county is statutorily required to annually appropriate for 100% of debt service on the bonds, and we understand that the obligation to pay debt service is not dependent on the terms of the loan agreement, development progress, or construction risk.

Credit overview

Cuyahoga County is the anchor of the broad and diverse Cleveland-Elyria metropolitan statistical area, and we believe that this provides stability to its credit profile. Healthy sales tax generation and substantial funding from the American Rescue Plan (ARP) Act have bolstered finances in recent years. That said, we believe the county's fiscal health could soften as sales tax trends moderate, as the county continues to spend down ARP funds, and as inflation and labor pressures weigh on expenditures. Nevertheless, we believe that very strong reserves and robust financial management mitigate downside risk over the outlook horizon.

In our view, the debt and liability profile will remain a limiting credit factor, especially as the county prepares to issue significant debt in 2025 to finance the construction of a jail, which was most recently estimated to cost $750 million. We don't expect the additional debt to immediately pressure operations, as the county recently extended a 0.25% sales tax that is expected to serve as the repayment source for the debt. The sales tax is being used for convention center debt that matures in 2027. However, given that sales taxes are more economically sensitive and account for 55% of general fund revenue, we believe that a prolonged economic downturn could pressure operations.

The 'AA' rating reflects our view of the county's:

- Strong economic fundamentals, including good incomes and market values, although weaker demographic trends somewhat temper these;
- Very strong reserves of $296.9 million, or 47.3% of expenditures, at the end of 2023, though continued ARP spending and the emergence of a small budget gap will likely make reserves decrease in the next two years but remain above the county's policy-mandated minimum of 25% of expenditures;
- Good financial policies and practices under our financial management assessment methodology, and strong institutional framework score; and
- Weak debt and liabilities profile, including contingent debt with exposure to the sports, convention, and tourism industry, though rapid amortization somewhat offsets this.

Environmental, social, and governance

We consider social risks neutral within our credit analysis. Although the county has experienced historical population decline, this has moderated in recent years and we believe that the county's status as the anchor for a more stable broad and diverse economy largely mitigates this risk. We also consider environmental risks neutral in our analysis. The county's location on the shores of Lake Erie poses some coastal erosion risk, but the county has a long-term lakefront plan that we believe will mitigate this. Overall, we view the county's access to the Great Lakes, the largest freshwater resource in the world, as a potential environmental natural capital opportunity, as it could attract business investment and stabilize the population. In our view, governance risks related to the county jail have subsided somewhat as the county works to address overcrowding and safety issues, including planning for the construction of a jail, but uncertainty remains given pending lawsuits related to the jail that we believe could negatively affect operations.

Outlook

The stable outlook reflects our view of Cuyahoga County's broad and diverse economy as well as its very strong budgetary flexibility and liquidity, and our expectation that the county will make the adjustments it deems necessary to maintain balanced operations.

Downside scenario

In our view, the rating could come under pressure if budgetary performance weakened and if reserves were to fall below the county's policy-mandated minimum without an adequate plan to replenish them. We could also lower the rating if intended repayment sources for supporting certain debt were to fall short of projections, requiring ongoing general fund support, or if the debt burden increased significantly beyond our expectations.

Upside scenario

We could raise the rating if population trends reversed, if income or wealth levels improved to levels commensurate with those of higher-rated peers, and if the debt and liability profile improved.

Credit Opinion

Broad and diverse economy, with wealth and income levels in line with the national average

Cuyahoga County is located on Lake Erie in northeastern Ohio, is the second-most-populous county in the state, and contains two townships and 57 cities and villages, the largest of which is Cleveland. The population has been declining, although the decline appears to be moderating, with the 2020 U.S. census showing only a 1.2% drop over the prior decade. We do not view the population decline as a significant credit weakness, given that the county anchors a larger and more stable metropolitan region.

The county's economy has diversified away from manufacturing, and its largest employers are predominantly medical, governmental, and service-oriented, the single largest being the Cleveland Clinic Health System. The county is home to a diverse array of employers, including 13 corporations that rank among Fortune magazine's 1,000 largest in the U.S. We note that Sherwin-Williams Co. is building a new headquarters and research-and-development site in the county.

The county has codified economic development as a priority and has supported various projects to add and retain jobs and support housing in Cleveland and throughout the county. Public and private investment have increased, with a significant concentration in downtown Cleveland and surrounding neighborhoods. Assessed value is estimated to grow 32% as a result of the recent six-year reappraisal, which will affect property taxes in 2025.

Strong management with the use of long-term planning and a formal reserve policy

Management uses historical trend analysis and outside sources to form revenue and expenditure assumptions on a line-item basis, and the county operates on a two-year budget cycle. The county council receives detailed quarterly budget-to-actual and investment reports, and the budget can be amended as needed. The county has a comprehensive two-year budget and five-year financial projections. Officials annually update a rolling five-year capital plan that identifies funding sources and cost estimates. The county adheres to a reserve policy that requires a minimum unencumbered general fund balance equal to 25% of prior-year cash-basis expenditures. Investment and debt policies largely mirror state guidelines.

The institutional framework score for Ohio counties is strong.

Very strong reserves are a credit strength despite spend-down of ARP funding

On a generally accepted accounting principles (GAAP) basis, the general fund balance increased in 2021 following the influx of ARP funding, followed by drawdowns in 2022 and 2023, reflecting the spend-down of this funding. The county received $240 million in ARP funding and allocated the entirety for revenue replacement but spent the majority on one-time capital projects. If we were to remove these one-time ARP expenditures, the general fund would have shown surpluses in 2022 and 2023.

On a budgetary basis of accounting, the 2024 budget shows a $114 million general fund deficit, but this, again, includes one-time ARP spending ($98 million). Removing this spending leaves a $15.8 million deficit, representing 2.2% of general fund expenditures and transfers out. We understand that the deficit is largely the result of excess spending in the sheriff's department for overtime, wage increases, and additional staff. The county has had difficulty hiring jail corrections officers, leading to the increased overtime costs. That said, officials report that the county has made progress in hiring and is almost at budgeted staffing levels, which should reduce overtime costs. On the revenue side, sales taxes are coming in slightly under budget, also contributing to the deficit. The county had originally budgeted for a 4% increase in sales tax collections, but year-to-date collections are up only 1.7%, which officials attribute to flat consumer spending and an uptick in unemployment. Sales taxes are the general fund's largest revenue source at nearly 55% of total revenue.

The 2025 budget shows another small general fund deficit, assuming another 4% increase in sales tax revenue. If sales tax revenue continues to underperform, or if labor costs continue to increase beyond projections, we believe the deficit could grow. However, we view general fund reserves as a credit strength, as they allow the county to absorb revenue losses or cost increases without having to immediately make large expenditure reductions. Over the long term, we anticipate that the county will make the adjustments it deems necessary to maintain structural balance. Funds outside of the general fund remain fairly healthy, with a recent trend of balanced operations. Voters renewed one of the county's health and human services levies in March 2024, ensuring stability in these funds for the next several years.

Total liquidity across all funds is also very strong, with about $1.1 billion in pooled cash and cash equivalents at the end of 2023. Management has confirmed that the county has no contingent liquidity risks from financial instruments with payment provisions that change on certain events, and we do not view investment practices as risky. The majority of investments are in highly rated U.S. government securities.

Weakening the liquidity position, in our assessment, is exposure to contingent liability risk stemming from various litigation and a standby letter of credit (LOC) for debt issued by MetroHealth System, a component unit of the county.

The county is a defendant in various lawsuits, including several wrongful death lawsuits related to the jail and the county's department of children and family services. The litigation is ongoing, and while we are unable to determine the potential financial impact to the county we do not believe a negative outcome in any of the lawsuits would materially affect overall liquidity or reserve position. We will monitor the outstanding litigation for effects on the financial position.

In 2017, MetroHealth issued $945 million in debt to finance the reconstruction of the system's hospital campus. MetroHealth is the sole obligor on the bonds (and therefore the debt is not included as direct debt of the county), though the county is serving as the counterparty for a standby LOC to fund a debt service reserve. The county can terminate the LOC if its entire notional value (approximately $63 million) is drawn. Furthermore, the county can fund the replenishment of the debt service reserve by offsetting its annual operating subsidy to the health care system (a discretionary subsidy usually in the range of $30 million to $40 million). The LOC has not been drawn on, so we do not think of it as a contingent liability that is likely to come due in the next 12 months.

Weak debt and liability profile with additional debt for new jail on the horizon

The county has about $1.0 billion in direct debt outstanding, including the series 2024A bonds. Total overall net debt (which includes overlapping debt) equates to 3.3% of the county's market value, which we consider manageable at the rating. Furthermore, we consider amortization rapid, with about 74% of debt scheduled to be retired in 10 years--a positive credit factor.

Using the estimated cost of $750 million for the new jail, we project that direct debt could increase close to 120% of total governmental fund revenue. In addition to the jail, the county is considering renovating or building a new justice center, though this project will likely occur after the jail project. We could lower the rating if additional debt causes debt metrics to weaken to levels commensurate with those of lower-rated peers.

Negatively affecting our view of the debt profile is exposure to speculative contingent liabilities. The county has issued substantial sales tax, nontax revenue, and appropriation debt that is supported with alternative revenue sources and that was largely issued to support various economic development projects, including a county-owned convention center and hotel, renovations at the Rocket Mortgage FieldHouse and Progressive Field, various residential and commercial projects, and this new debt for the Rock Hall. Much of this debt is intended to be repaid with project or other alternative revenue, though the county is ultimately pledging its support if such revenue is insufficient to cover debt service. In the event of shortfalls in intended repayment sources requiring ongoing general fund support and leading to operating pressures, the rating could come under pressure.

Manageable pension and other postemployment benefit (OPEB) liabilities

Pension and OPEB costs are manageable, although pension cost escalation is likely given plan assumptions and methods.

Cuyahoga County participated in the following plans as of 2023:

- Ohio Public Employees' Retirement System, 76% funded using a 6.9% discount rate, with a proportionate share plan's net pension liability of $847.2 million
- State Teachers Retirement System of Ohio: 80% funded using a 7% discount rate, with a proportionate share of the plan's net pension liability of $2.7 million

We do not view OPEB liabilities under these plans as a significant source of credit pressure.

We expect that long-term pension/OPEB costs could face volatility as a result of aggressive assumptions and amortization methods designed to defer contributions. Pension reforms in the past, as well as recent OPEB reforms, help mitigate the risk of cost escalation. For more information on our view of these plans, see "Pension Spotlight: Ohio," published July 31, 2023, on RatingsDirect.

Cuyahoga County key credit metrics				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Strong economy				
Projected per capita EBI as % of U.S.	92			

Cuyahoga County key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Market value per capita ($)	81,962			
Population		1,233,012	1,229,828	1,226,182
County unemployment rate (%)			4.9	
Market value ($000s)	101,060,023	100,196,371	99,444,471	
Ten largest taxpayers as % of taxable value	6.4			
Adequate budgetary performance				
Operating fund result as % of expenditures		(5.2)	(1.6)	17.8
Total governmental funds result as % of expenditures		(6.9)	(2.5)	2.0
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		47.3	52.9	67.1
Total available reserves ($000s)		296,950	330,968	344,650
Very strong liquidity				
Total government cash as % of governmental funds expenditures		61	70	81
Total government cash as % of governmental funds debt service		604	733	785
Strong management				
Financial management assessment	Good			
Weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		10.0	9.6	10.3
Net direct debt as % of governmental funds revenue	69			
Overall net debt as % of market value	3.3			
Direct debt 10-year amortization (%)	74			
Required pension contribution as % of governmental funds expenditures		3.9		
OPEB actual contribution as % of governmental funds expenditures		0		
Strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2023 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 20, 2024)		
Cuyahoga Cnty econ dev rev rfdg bnds (Shaker Sq Proj) ser 2010D dtd 09/03/2010 due 06/01/2011-2020 12/01/2010-2020 2025 2030		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty misc tax		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of August 20, 2024) (cont.)		
Cuyahoga Cnty taxable economic dev rev rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty taxable economic dev rev rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty taxable econ dev rev bnds (Flats East Dev LLC Proj)		
Long Term Rating	AA-/Stable	Affirmed
Cuyahoga Cnty GO		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty GO (ltd tax) cap imp bnds		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty GO (ltd tax) taxable cap imp rfdg bnds (federally taxable) (Sports Fac Imp Proj) ser 2019B due 12/01/2027		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty APPROP		
Long Term Rating	AA/Stable	Affirmed
Cuyahoga Cnty APPROP		
Long Term Rating	AA/Stable	Affirmed
Cleveland-Cuyahoga County Port Authority, Ohio		
Cuyahoga County, Ohio		
Cleveland-Cuyahoga Cnty Port Auth (Cuyahoga Cnty) lse		
Long Term Rating	AA-/Stable	Affirmed
Cleveland-Cuyahoga Cnty Port Auth (Cuyahoga Cnty) APPROP		
Long Term Rating	AA-/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.