

# RatingsDirect®

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## Summary:

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

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

## Summary:

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

### Credit Profile

US\$4.16 mil taxable econ dev rev bnds (Steelyard Commons Proj) ser 2013A dtd 10/30/2013 due 12/01/2037

<i>Long Term Rating</i>	AA-/Stable	New
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Cuyahoga Cnty GO

<i>Long Term Rating</i>	AA/Stable	Downgraded
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#### **Gateway Econ Dev Corp., Ohio**

Cuyahoga Cnty, Ohio

Gateway Econ Dev Corp. (Cuyahoga Cnty)

<i>Long Term Rating</i>	AA-/Stable	Downgraded
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## Rationale

Standard & Poor's Ratings Services lowered its rating on Cuyahoga County, Ohio's general obligation (GO) bonds to 'AA' from 'AA+' based on our recently released local GO criteria. We also lowered our rating on the county's nontax and appropriation secured bonds to 'AA-' from 'AA' in tandem with the GO downgrade. The outlook is stable.

We rate the county's nontax revenue bonds one notch below the GO rating due to the limited nature of the security. The notched rating on the Cleveland-Cuyahoga County Port Authority's lease revenue bonds issued for Cuyahoga County reflects the appropriation risk, while our notched rating on Gateway Economic Development Corp.'s series 2004A stadium revenue refunding bonds issued for Cuyahoga County reflects the security provided by a guarantee agreement among the county, the economic development authority, and trustee that outlines the county's backstop annual appropriation pledge to cover debt service on the stadium revenue bonds and replenish the reserve fund, if necessary.

In addition, we assigned our 'AA-' long-term rating to the county's series 2013A taxable economic development revenue bonds (Steelyard Commons Project). The outlook is stable.

A pledge of the county's nontax revenues, on parity with the county's existing nontax revenue bonds, which include charges for services; payments in lieu of taxes; fines and forfeitures; fees, licenses, and permits; investment earnings; proceeds from the sale of assets, rental income, federal grants, gifts and donations; and project revenues, secures the bonds. The county will annually appropriate nontax revenues sufficient to pay all debt service in that year. While bond documents require the county to appropriate nontax revenues, they do not prohibit it from using any other available revenues to make debt service. County 2012 nontax revenues of \$74.6 million provide 1.6x maximum annual debt service (MADS) coverage. Cuyahoga County will use bond proceeds for economic development purposes. The bonds will support a multitenant shopping area in Cleveland, and management expects that tax-increment revenues will support debt service.

The GO rating reflects our assessment of the following factors for the county, specifically its:

- Weak economy, which benefits from participation in the broad and diverse economy of Cleveland but has recently had population declines;
- Very strong budgetary flexibility with 2011 audited reserves at 76% of general fund expenditures and unaudited 2012 reserves at 72% of general fund expenditures;
- Adequate budgetary performance which takes into account a projected operational imbalance for fiscal 2013 but expected structural improvement in fiscal 2014;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong management conditions with strong practices and policies in place;
- Adequate debt and contingent liabilities position, driven mostly by the county's net direct debt; and
- Strong institutional framework score.

### **Weak economy**

We consider Cuyahoga County's economy, which benefits from participation in the broad and diverse economy of Cleveland, weak. County unemployment averaged 7.3% in 2012, down from 9.1% in 2010. The county has what we consider good per-capita incomes, reflecting the ability of residents to access jobs throughout the regional Cleveland economy; its projected per-capita effective buying income is 100% of the U.S. average. However, Cuyahoga County's average weighted population decline is 6.7% based on the past 10 years and projected 10-year change, with the largest decline in the city of Cleveland. Per-capita market value for the county was \$62,451 in 2012. Assessed value (AV) decreased 7.1% in 2012, following a sexennial reappraisal. Management expects AV will be stable or increase over the next two years. Cuyahoga County has codified economic development as a priority and has supported various projects to help add and retain jobs and housing within Cleveland and throughout the county.

### **Very strong budget flexibility**

In our opinion, the county's budgetary flexibility remains very strong, with reserves above 30% of expenditures for the past several years and no plans to significantly spend the them down. Management expects a slight use of reserves in fiscal 2013 but to adopt a balanced 2014-2015 biennial budget across the general and total governmental funds. Audited available fiscal 2011 reserves were \$222.6 million or 76% of expenditures, and unaudited available fiscal 2012 reserves totaled \$224.6 million, or 72% of expenditures.

### **Adequate budgetary performance**

Following a surplus in fiscal 2011, management has reported an unaudited fiscal 2012 operating surplus of 17.4% in the general fund before sizable transfers of a dedicated sales tax to the medical mart fund. It expects a less than 5% use of general fund reserves in fiscal 2013. Total governmental fund results have been close to balanced, accounting for one-time capital expenses related to the construction of the Medical Mart. At this time, including our view on regional sales tax growth (see "U.S. State And Local Government Credit Conditions Forecast," published July 8, 2013), and the county's historic budget-to-actual performance, we do not anticipate a change in our assessment of the county's general fund performance. Sales taxes decreased between 2008 and 2010, but recovered faster than property taxes and increased by 6% in 2011 and 5% in 2012.

### **Very strong liquidity**

Supporting the county's finances is what we consider very strong liquidity, with total government available cash at 48% of total governmental fund expenditures and 749% of debt service. We believe the county has exceptional access

to external liquidity. It has issued bonds frequently, including GO bonds, nontax revenue bonds, appropriation bonds, and state loans.

### **Very strong management**

We view Cuyahoga County's management conditions as very strong with strong financial practices. The county produces quarterly reports which include budget-to-actual results, investment portfolio performance, and updated three-year financial projections shared with the board. Its biennial budget also includes a five-year capital improvement plan and debt policy. The county recently codified a reserve policy which set a minimum unreserved fund balance at 20%-25% of expenditures on a budgetary basis.

### **Adequate debt and contingent liability profile**

In our opinion, the county's debt and contingent liabilities profile is weak, with total governmental funds debt service at 6.4% of total governmental funds expenditures and with net direct debt at 66% of total governmental funds revenue in fiscal 2013 and slated to rise. The county plans to issue approximately \$5 million in additional nontax revenue bonds and \$17 million in appropriation bonds in 2013 and will likely issue lease debt to finance a hotel project as early as 2014. Much of the county's debt is backed by the county's nontax or appropriation pledge.

Eligible county employees participate in either the Ohio Public Employees Retirement System (OPERS) or the State Teachers Retirement System (STRS), both multiple-employer, cost-sharing state retirement systems. Employees participate in a choice of a defined-benefit, defined-contribution, or combined plan. In fiscal 2011, the county made its full annual required contributions, which totaled \$40.76 million, or 3% of total governmental expenses. Other postemployment benefits, such as retiree health care, are included in total OPERS and STRS contributions.

### **Strong institutional framework**

We consider the institutional framework score for Ohio counties as strong. (See the Institutional Framework score for Ohio.)

## **Outlook**

The stable outlook reflects our view of Cuyahoga County's stated commitment to structurally balance its fiscal 2014 and 2015 general fund and governmental funds budgets. We also do not anticipate changing the rating in the two-year outlook horizon because of the county's likely continued adequate debt profile. In addition, we do not expect that the economic profile will significantly change within two years

## **Related Criteria And Research**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- Institutional Framework Overview: Ohio Local Governments

**Ratings Detail (As Of October 16, 2013)**

**Ratings Detail (As Of October 16, 2013) (cont.)**

Cuyahoga Cnty misc tax

*Long Term Rating*

AA-/Stable

Downgraded

**Cleveland-Cuyahoga Cnty Port Auth, Ohio**

Cuyahoga Cnty, Ohio

Cleveland-Cuyahoga Cnty Port Auth (Cuyahoga Cnty) lse

*Long Term Rating*

AA-/Stable

Downgraded

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