Summary:

Cuyahoga County, Ohio; Sales Tax

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Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Cuyahoga County, Ohio's series 2015 sales tax revenue bonds. At the same time, we affirmed our 'AAA' long-term rating on the county's series 2014 various purpose sales tax revenue bonds. The rating outlook is stable.

The county is pledging its 1.25% tax on all retail sales in the county and on the storage, use, or consumption in the county of tangible personal property, including automobiles to pay the debt service on the 2015 bonds. In addition, the city is also pledging tax increment revenues to pay debt service. The pledge of the tax increment revenues does not meet our criteria and thus we consider the pledge of sales tax revenues as the stronger security, which reflects our 'AAA' rating assignment.

It is our understanding that bond proceeds will be used to help finance construction, rehabilitation, and renovation costs to publicly owned park space at the center of downtown Cleveland Ohio, referred to as Public Square.

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

- The stable sales tax revenue stream since 2009;
- The very strong maximum annual debt service (MADS) coverage of 19.5X;
- The good legal provisions, including a 3X MADS historical additional bonds test (ABT);
- The deep and diverse Cuyahoga County regional economy; and
- The remote possibility that the county will bond down to its ABT, owing to its reliance on sales tax revenues for general fund operations.

The bonds' lien on the 1.25% sales tax is on parity with the county's other sales tax-secured transaction, the series 2014 bonds. One percent of the county sales tax is continuous while the remaining 0.25% is in effect until 2027. Neither is subject to repeal. All sales tax revenues are pledged to the bonds and the debt service coverage still remains very strong in our opinion, assuming the revenues generated off the 0.25% sales tax rate is not renewed after calendar year 2027.

Sales tax revenues for the county after calendar year 2009 have grown by at least nearly 4% each year and officials have budgeted for a 5% increase for fiscal 2015 (Dec. 31). The county has witnessed growth in its sales tax revenues to $246.7 million for fiscal 2014 that have eclipsed pre-recession levels prior to 2009, where sales tax revenues fell 10% to...
$193.3 million. While county sales taxes were somewhat volatile during the recession, we believe that sales tax coverage ratios are sufficiently strong to withstand potential future volatility.

Using 1.25% sales tax revenues of $246.7 million in 2014, MADS of $12.6 million (including both series 2014 and 2015 debt service) occurring in 2023 resulted in coverage of 19.5x. Annual debt service is relatively level through 2033 and assuming just the 1% sales tax revenues ($197.4 million) are used after 2027, the average annual debt service coverage is 17.1x, which we still consider very strong.

Pursuant to resolutions and the trust agreement, sales tax revenues are deposited monthly by the State Tax Commissioner into the trustee held sales tax revenue fund. The trustee will deposit 25% of the amount that will be sufficient to pay interest on the bonds due in the next succeeding interest payment date and 10% of the amount sufficient to pay principal due on the next succeeding principal date. As a result, sufficient monies will be on hand in the sales tax bond fund two months prior to debt service due dates for payment on the bonds. Any remaining funds after paying debt service and trustee fee and expenses are remitted to the county. The series 2015 bonds will not have a debt service reserve.

The bonds are covered by an ABT on the county's other parity sales tax debt, which is defined as one-half of the aggregate continuing county sales tax receipts (1%) during the prior 24 consecutive months prior to the sale of additional bonds [which?] is greater than 300% of the amount of bond service charges on all bonds payable during any bond year. Based on calendar years 2014 and 2013, the continuing sales tax amount calculated for the past 24 months is $193.6 million and the coverage for both series of bonds (2015 and 2014) is at least more than 15x in any debt service payment year due for both series of bonds.

County officials indicate there is a potential issuance of $20 million of additional sales tax bonds over the next few years for repair and renovation of the Huntington Park parking garage. Management indicated that there are no other formal plans to issue sales tax debt but additional sales tax backed transactions may be issued over the longer term. In our view, the county's reliance on sales tax revenues to fund general operations also reduces the risk that it would bond down to its ABT. In fiscal 2014, sales tax revenues accounted for 61% of its total general fund revenues.

Cuyahoga County serves an estimated 2014 population of 1.26 million in northeastern Ohio, on Lake Erie and anchored by Cleveland, which we consider a broad and diverse economy. The city is a regional financial, health care, and services center that provides a wide variety of jobs to county residents. The county's 2014 median household and per capita effective buying incomes were 84% and 95%, respectively, of the national level. County per capita retail sales were 64% of the U.S. level in 2014. Leading sales taxpayer information is not available, but given the size of the county, we do not view concentration as an issue. The average unemployment rate for the county in 2014 was 6.4%, which was a decline from the 7.1% average in 2013. Cuyahoga 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 in recent years. The Global Center for Health Innovation and Convention Center project was completed in 2013, and Cleveland will host the 2016 Republican National Convention, which is expected to generate more than $400 million in economic activity. Various other large hotel, retail, and residential projects have been completed and more projects are also underway.
Outlook

The stable outlook reflects our expectation that the county will not bond down to its ABT because of its reliance on sales tax revenues for its operations as well as our belief that sales tax revenues will continue to generate very strong debt service coverage and as such we do not expect the rating to change during the two-year outlook period. The rating is further strengthened by the broad and diverse economic base.

Downside scenario

A lower rating is possible if there is a decline of sales tax revenues and the coverage falls to a level we feel is not commensurate with peers at the current rating or if the county weakens its additional bonds test requirement.

Related Criteria And Research

Related Criteria

- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research


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