S&P Global
Ratings

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Summary:

Cincinnati, Ohio; General Obligation; Miscellaneous Tax

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Credit Profile		
US$27.8 mil unltd tax var purp GO imp bnds ser 2023A due 12/01/2043		
Long Term Rating	AA/Stable	New
Cincinnati unltd tax var purp GO bnds ser 2011A due 12/01/2036		
Long Term Rating	AA/Stable	Affirmed
Cincinnati GO		
Long Term Rating	AA/Stable	Affirmed
Cincinnati GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Cincinnati, Ohio's $27.8 million unlimited-tax general obligation (GO) improvement bonds.
- At the same time, we affirmed the long-term rating on the city's GO debt and nontax-revenue bonds at 'AA'.
- The outlook is stable.

Security

Cincinnati's full faith credit and resources, and an agreement to levy ad valorem property taxes without limit as to rate or amount, secure the bonds. Per the city's charter, the levy used to support the debt service is not subject to the state's 10-mill limitation. The city's nontax-revenue bonds are secured by the city's nontax revenue in its general fund, which includes licenses, permits and fines; forfeitures; and penalties revenue. We rate these bonds on par with our view of its general creditworthiness, as reflected in the rating on the unlimited-tax GO bonds. The fungibility of resources, and the ability to manage those resources, drives our view of the city's ability and willingness to pay.

Bond proceeds are expected to finance various projects under the city's capital improvement plan.

Credit overview

Cincinnati's rating reflects its very strong reserves and liquidity position, guided by proactive fiscal management with well-embedded fiscal planning and policies, and its anchor for a broad and diverse metropolitan statistical area (MSA), which emerged from the most recent recession better than anticipated. Significant and ongoing economic expansions are underway and expected to further boost economic growth and stability. The expected fiscal stability and further growth in reserves and liquidity also supports the rating. Below-average income levels and the city's large debt, pension, and other postemployment benefits (OPEB) liability are constraining credit factors.

Available fund balance increased by over 100% over the past two years and stood at a high $219 million (including committed reserves), or 55% of expenditures in fiscal 2022, despite the pandemic and concerns surrounding its potential impact on the city's major revenue stream, income tax (70%). Roughly $280 million in American Rescue Plan Act (ARPA) funds provided significant financial flexibility (revenue replacement and public safety) and will continue through the fiscal 2025 budget. Continued growth in the job market, with actual income tax exceeding the budget by over 20% consecutively in 2021 and 2022, also contributed to the increased reserves. Fiscal 2023 (June 30) is expected to achieve another operating surplus, according to officials, attributable to strong revenue growth, primarily income tax. Officials continue to set aside $50 million in reserves for potential income tax refunds. Pending litigation could allow workers to seek income tax refunds for tax year 2020 if they worked remotely because of the pandemic; if this prevails, reserves will decrease, but, in our opinion, remain very strong and continue to support the rating.

The city's large debt, pension, and OPEB liabilities remain a credit weakness, in our opinion. Historical underfunding of actuarially determined contribution (ADC) of its single-employer (Cincinnati Retirement System (CRS), 75.3% funded ratio) defined plan could lead to future budget stress. The city recently increased the contribution rate to 17% (from 16.25%) and will contribute $2 million additionally in efforts to reduce the liability. Additionally, once the city exhausts its ARPA funds, it could face budget challenges, but is likely to make the necessary budgetary adjustments. Revenues are expected to be favorable with continued, albeit reduced, growth in income tax revenues. Increases in property tax millage, to a maximum 6.1 mills in 2024, will generate $5 million in 2024 and $14 million in 2025, given tax base growth.

With the approved $1.6 billion sale of its railroad, expected to close in March 2024, proceeds will be held in a trust, and interest earnings will be transferred to the city. The city currently receives about $26 million in lease revenues, but given the sale is expecting $56 million annually from interest earnings (assuming a 5.5% rate of return, with 3.5% for funding infrastructure and 2% added to the corpus), which will provide additional flexibility for existing infrastructure funding. Fluctuations in interest rates will introduce some volatility to this additional revenue source. However, given strong fiscal oversight, we believe management will adjust its assumptions and budget as needed to avoid any shortfalls.

The rating also reflects our view of the city's:

- Large, robust, and diverse employment base, with adequate economic metrics, that in recent years has been exhibiting population growth. Cincinnati is the economic hub serving the region, and continues to see significant investments that will support economic and financial stability. There is diversity among the city's employment sectors, which include health care, higher education, financial services, and government. The city and region have seen significant new development in recent years, and the county projects a 25% increase in the city's assessed value for 2024. Regionally, there is over $5.8 billion in construction activity, with another $5.3 billion in proposed projects.
- Fiscal planning and policies that we consider very strong under our Financial Management Assessment (FMA), and which we believe will continue to ensure near- and long-term financial stability. These include five- and six-year financial and capital improvement plans, respectively, that are updated annually, and a stabilization fund reserve policy with a goal of maintaining an overall reserve target requiring minimum contingent reserves of two months' general fund revenue (16.7%) on a cash basis, which the city will exceed in fiscal 2023. The city also benefits from a strong institutional framework.

- High fixed costs and high debt burden ($731 million), coupled with a large unfunded pension (CRS: $505 million; $445 million Ohio Police and Fire [OPRS]) as of June 30, 2022, and a lack of a plan to sufficiently address these factors. For more information on our view of OPRS plans, see "Pension Spotlight: Ohio," published July 31, 2023, on RatingsDirect. The city's OPEB trust was funded at 141.9% as of June 30, 2022.

Environmental, social, and governance

We view the city's reliance on income taxes from commuters as a moderately negative social risk, given the shift to working from home, though we think the stability of institutional employers largely mitigates this risk. We also believe that the city's environmental factors are elevated compared with those of peers, given its location along the Ohio River, which is prone to flooding. That said, most of Cincinnati sits outside the flood plain, so we believe the risk will be manageable from a budget standpoint. In our view, governance factors are neutral within our analysis.

Outlook

The stable outlook reflects our view that, given the city's proactive fiscal management and its demonstrated ability to plan and adjust its budget during economic downturns, it will maintain its very strong financial position.

Downside scenario

We could lower the rating if reserves decrease to a level that we feel is no longer commensurate with that of similarly rated peers. We could also lower the rating if the city's pension funding discipline leads to material weakening in its funding status.

Upside scenario

In the longer term, if economic indicators, such as per capita effective buying income (EBI) and market value per capita, improve to levels that are comparable with those of higher-rated peers, and the city improves its pension funding discipline and liability, with all other rating factors remaining constant, we could raise the rating.

Cincinnati, Ohio--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Adequate economy				
Projected per capita EBI % of U.S.	89.2			
Market value per capita ($)	61,724			
Population		309,092	306,503	306,518
County unemployment rate (%)		3.6		
Market value ($000)	19,078,337	19,005,897	16,696,160	16,382,191
Ten largest taxpayers % of taxable value	13.1			
Adequate budgetary performance				
Operating fund result % of expenditures		15.1	11.2	5.3
Total governmental fund result % of expenditures		(2.8)	8.5	9.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		55.5	38.6	24.8

Cincinnati, Ohio--Key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Total available reserves ($000)		218,898	152,754	105,081
Very strong liquidity				
Total government cash % of governmental fund expenditures		55.0	63.0	48.0
Total government cash % of governmental fund debt service		528.0	513.0	437.0
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		10.8	12.3	11.0
Net direct debt % of governmental fund revenue	79.0			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	65.5			
Required pension contribution % of governmental fund expenditures		12.1		
OPEB actual contribution % of governmental fund expenditures		0.1		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of November 8, 2023)		
Cincinnati bnds		
Long Term Rating	AA/Stable	Affirmed
Cincinnati economic dev rev bnds (federally taxable) (Hudepohl Brewery Remediation Proj)		
Long Term Rating	AA/Stable	Affirmed
Cincinnati economic dev rev bnds (federally taxable) (Industrial Site Redev Proj)		
Long Term Rating	AA/Stable	Affirmed
Cincinnati economic dev rev bnds (East Price Hill Revitalization Proj)		
Long Term Rating	AA/Stable	Affirmed
Cincinnati economic dev rev bnds (Otr Arts Permanent Imp Proj)		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of November 8, 2023) (cont.)		
Cincinnati econ dev		
Long Term Rating	AA/Stable	Affirmed
Cincinnati unltd tax various purp GO rfdg bnds (federally taxable)		
Long Term Rating	AA/Stable	Affirmed
Cincinnati GO		
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.