S&P Global
Ratings

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Summary:
Cincinnati, Ohio; General Obligation; Miscellaneous Tax

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Long Term Rating	AA/Stable	Current
Cincinnati economic dev rev bnds (East Price Hill Revitalization Proj)		
Long Term Rating	AA/Stable	Current
Cincinnati econ dev		
Long Term Rating	AA/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term and underlying ratings on Cincinnati, Ohio's general obligation (GO) and nontax-revenue bonds is 'AA'.
- The outlook is stable.

Security

Cincinnati's full faith credit and resources, and an agreement to levy ad valorem property taxes without limit to rate or amount, secures its GO bonds. Per the city's charter, the levy used to support the debt service is not subject to the state's 10-mill limitation. We rate the city's nontax-revenue 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 drive our view of the city's ability and willingness to pay.

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; its anchor for a broad and diverse metropolitan statistical area (MSA), which has emerged from the most recent recession better than anticipated; and expected fiscal stability and further growth in reserves and liquidity. Below-average income levels and the city's large debt, pension, and other postemployment benefits (OPEB) liability are constraining credit factors.

Reserves 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 fiscal 2025 budget, according to officials. Additionally, due to continued growth in the job market, actual income tax exceeded the budget by over 20% consecutively in 2021 and 2022, and 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. Although reserves are expected to increase further in fiscal 2023, officials planned and set aside, as part of fiscal year 2021 carryover process, $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 were working 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. We believe that management's somewhat optimistic actuarial assumptions and underfunding of the actuarially determined contribution (ADC) of its single-employer defined plan could lead to future budget stress. Additionally, once the city exhausts its ARPA funds, it could face budget challenges. However, we understand that it has the capacity to make the necessary budgetary adjustments, and has identified areas in the budget that could provide budgetary savings. Revenues are expected to be favorable with continued, albeit reduced, growth in income tax revenues. Additionally, recent elimination of the rollback of property tax millage will increase millage to a maximum 6.1 mills in 2024 and generate $6.5 million in 2024 and 14 million in 2025, given tax base growth.

With the $1.6 billion sale of its railroad, pending voter approval, proceeds will be held in a trust and interest earnings from the trust will support capital expenditures. We understand that the funds will not be available to support operations.

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

- Large, robust, and diverse employment base, albeit with adequate economic metrics, that in recent years has been exhibiting population growth, is the economic hub serving the region, and continues to see significant investments that will support economic and financial stability.
- Fiscal planning and policies that we consider very strong under our Financial Management Assessment (FMA), and 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 biennially. Among its fiscal policies is a stabilization fund policy that establishes various reserves targets, but 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. The city also benefits from a strong institutional framework.
- High fixed costs and high debt burden, coupled with large unfunded pension ($803 million) and OPEB as of Dec. 31, 2022, and a lack of a plan to sufficiently address these factors. However, we believe OPEB costs will likely remain manageable, given recent reforms that could offset future liability growth. Additionally, the city's OPEB trust was funded at 137.6% as of June 30, 2022.

Environmental, social, and governance

We consider the city's social risks above-average compared with those of the sector, given its reliance on income taxes from commuters and the long-term risks associated with teleworking. 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's debt profile (including pension liabilities) improves with all other rating factors remaining constant, we could raise the rating.

Cincinnati--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Adequate economy				
Projected per capita EBI % of U.S.	86			
Market value per capita ($)		62,009		
Population			306,503	306,518
County unemployment rate (%)		3.6		
Market value ($000)		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
Total available reserves ($000)		218,898	152,754	105,081
Very strong liquidity				
Total government cash % of governmental fund expenditures		57	63	48
Total government cash % of governmental fund debt service		528	513	437
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	93			
Overall net debt % of market value	5.9			
Direct debt 10-year amortization (%)	65			

Cincinnati--Key credit metrics (cont.)	Most recent	Historical information		
		2022	2021	2020
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

- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 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 June 30, 2023)		
Cincinnati economic dev rev bnds (federally taxable) (Industrial Site Redev Proj)		
Long Term Rating	AA/Stable	Current
Cincinnati economic dev rev bnds (Otr Arts Permanent Imp Proj)		
Long Term Rating	AA/Stable	Current
Cincinnati unltd tax various purp GO rfdg bnds (federally taxable)		
Long Term Rating	AA/Stable	Current
Cincinnati unltd tax var purp GO bnds ser 2011A due 12/01/2036		
Long Term Rating	AA/Stable	Current
Cincinnati GO		
Long Term Rating	AA/Stable	Current
Cincinnati GO		
Long Term Rating	AA/Stable	Current
Cincinnati GO		
Long Term Rating	AA/Stable	Current

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