



THE HEART OF CUYAHOGA COUNTY

**6800 Brecksville Road
Independence, Ohio 44131
216.524.4131**

MEMORANDUM

To: Mayor Gregory P. Kurtz
Members of Council

From: Finance Director Vernon Blaze

Date: Friday, December 9, 2022

Re: Finance Office and Related Topic Updates

Moody's Ratings Call

Independence was contacted by Moody's recently to explain that how bond/credit ratings will be calculated is going to change going forward.

A "new" US Cities and Counties Methodology was adopted and therefore municipal debt issuers will now be "scored" under a different scoring system.

Independence has paid off approximately \$10 million of debt over the last three years. The cash was available and the debt that was retired ahead of schedule carried higher interest rates. So, the net effect was to save the City hundreds of thousands of dollars of future interest payments.

And even though the City's Year-End Cash Balances remained relatively steady even after paying off this higher-yielding debt, that left the City's 2021 Year-End General Fund Balance lower than the Year-End 2020 Balance.

Moody's Ratings Call - Continued

The “bad” news for Independence with that is that the “Available Fund Balance Ratio” and other similar metrics went from being weighted 20 percent under the previous ratings methodology to being weighted 30 percent under this new ratings methodology.

So even though Cash remained steady and long-term debt declined by approximately 33 percent just in the last three years, Independence will still get “dinged” under this new ratings methodology because the General Fund Balance declined from year-end 2020 to year-end 2021.

“Leverage” is one of the other ratings factors. Although the debt that Independence is responsible for paying declined by some 33 percent in the last three years, all public entities have to carry on their books pension liabilities and “Other Post-Employment Benefit Liabilities” – OPEB.

Many take the view that pension liabilities are the burden of the pension systems and not the local public entities themselves. But no matter what is thought about that issue, the fact remains that a calculation is made of each public entity’s “share” of pension liabilities and OPEB, and that amount is then ascribed to each public entity.

Independence is ascribed some ~\$2 million in OPEB and some ~\$21 million in pension liabilities – currently more than \$23 million total.

The weighting of this “leverage” factor was increased to 30 percent under the new ratings methodology from 20 percent under the previous ratings methodology.

The Finance Office was therefore somewhat “sidetracked” last week and early this week to prepare a “defense” of the City’s financial position for this ratings call that occurred on Tuesday.

Moody's Ratings Call - Continued

The Finance Office also prepared follow-up material for the rest of this week up until today to provide responses to some of the concerns that Moody's brought up on the ratings call.

The Finance and Mayor's offices will communicate Moody's decision as soon as it is received.

Final 2022 Annual Appropriations Amendment and 2023 Annual Appropriations Ordinance

Because of the time spent preparing for this week's Moody's Ratings Call and the needed follow-up time to respond to Moody's concerns, the final amendment to the 2022 Annual Appropriations Ordinance and the 2023 Annual Appropriations Ordinance are not complete yet.

If they are completed but not done in time for Council to have enough time to thoroughly review each document prior to this Tuesday's Regular Council Meeting, as long as they are both adopted by year-end, that will be acceptable.

Property Aggregation

The city has taken title over the years to four vacant, land-locked parcels generally located east of the current end of Acorn Drive (east off Oaktree Blvd.) and west of Interstate 77.

The City recently took title to a fifth parcel in that area through the Cuyahoga County Fiscal Office as authorized in a City Codified Ordinance for just the price of transaction closing/court costs, resulting in the City now owning almost eleven acres of land in that area.

Although most of the land is topographically challenged (sloping) and may have other site factors such as wetlands, it does not hurt for the city to control these parcels via ownership vs. an outside entity owning them and trying to force a development proposal that would require numerous special considerations.

Thomas Suddes – Plain Dealer/Cleveland.com – Budget Maxim

This regular Memorandum cites material from many sources and frequently quotes from those sources, one being Plain Dealer and Cleveland.com columnist Thomas Suddes.

Thomas is a “walking book” of Ohio history, especially its political and governance history.

Thomas recently wrote about the next state budget that Ohio Governor Mike DeWine and the General Assembly will have to work on together to pass in 2023.

Thomas opined that when money is tight, it’s easier for a government to say “no” to spending, but when “*the coffers are awash in cash,*” it’s easier and “*politically more rewarding*” to say “yes” to that spending.

The standout line in that column was the following:

“That’s where an old budget maxim should kick in: If you want to know what a state or local government actually wants to do, as opposed to what that government says it wants to do, see what it actually spends – and on what.”

There is someone referencing the Budget again and its importance and relevance to governance!

That is why some, possibly even more than some, opine that the most important piece of legislation and public policy a legislative body adopts all year long is the budget/appropriation legislation.

That budget/appropriation legislation identifies what the priorities of said government are by noting where and on what, its financial resources are being directed. Thomas is saying that public officials can say anything, but where they allocate and direct public tax dollars via budgets and appropriations, speaks louder than their words.