



Rating Action: Moody's confirms Independence (OH) issuer rating and GOLT at Aa1

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New York, December 12, 2022 -- Moody's Investors Service has confirmed Independence, OH's Aa1 issuer rating and the Aa1 rating on the city's outstanding general obligation limited tax (GOLT) bonds. The issuer rating reflects the city's general credit quality and ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features. This action concludes a review that was initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties methodology. The city had about \$20 million in outstanding debt at the close of fiscal 2021.

RATINGS RATIONALE

Confirmation of the Aa1 issuer rating reflects the city's healthy financial reserves, strong resident income and full value per capita, and slightly above average long-term liabilities burden.

The city's total available fund balance and liquidity are healthy despite a materially negative fund balance in the city's tax increment financing (TIF) fund. The deficit in the TIF fund arises from an interfund loan that is owed to the city's general fund. The offsetting asset recorded in the general fund is classified as non-spendable fund balance and excluded from our definition of available fund balance, which includes assigned, unassigned and committed fund balance.

However, recognizing this asset as an offset to the TIF fund's liability, and also recognizing that the city has strong liquidity across all funds despite the TIF fund's deficit, we ultimately view the city's financial position to be healthy. This is all the more so when we consider that the city also has substantial restricted balances in a capital fund used for core government operations of infrastructure. No bond proceeds are included in those funds. Accounting for all available resources, despite audit designation, results in a fund balance ratio that exceeds 50% of revenue.

Reserves will remain solid with the city tracking to a large surplus in fiscal 2022 and positioned for another strong year in fiscal 2023 given strong income tax receipts. About two-thirds of city revenue is generated from income taxes. The city has substantial budgetary flexibility because over 20% of annual revenues are used to cash finance capital, and for the early retirement of bonds.

Approximately two-thirds of the city's outstanding leverage stems from participation in a cost-sharing pension plan. The city has no future borrowing plans and has been repaying bonded debt early. Adjusted fixed costs for the city are low at under 10% of revenues.

The lack of rating distinction between the Aa1 issuer rating and Aa1 GOLT rating reflects the city's full faith and credit pledge and the state requirement that Ohio local governments use all available revenues, including available property tax millage currently assigned to operations of the city or overlapping entities under the ten mill limitation statutory code for the payment of debt service prior to any other uses.

RATING OUTLOOK

Moody's does not usually assign outlooks to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Further improvement of already strong economic metrics
- Decrease in leverage, which primarily stems from unfunded pension liabilities

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Weakening available reserves or liquidity
- Growth in leverage

LEGAL SECURITY

The bonds and notes are secured by the city's full faith and credit pledge and a requirement to levy ad valorem property taxes within the ten mill limitation. The ten mills are shared by all overlapping local governments.

PROFILE

The City of Independence is located approximately 12 miles south of downtown Cleveland. While the city is home to around 7,100 residents, its daytime population is much larger due to a sizeable commercial office presence that brings in commuters from throughout the Cleveland metropolitan area. The city's operations consist of general governmental functions such as public safety, public works, planning and recreational services. The city does not operate any business operations. The city has no business operations. Water and sewer services are provided by separate governmental entities (the City of Cleveland and the Northeast Ohio Regional Service District, respectively).

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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