



Dealing with the Debt: *A Fiscal Snapshot of Cuyahoga County*

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County Budgeting Matters
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Introduction

Cuyahoga County currently has \$1 billion in debt outstanding. In this edition of *County Budgeting Matters*, we will examine the current amount of debt, explore the composition of the debt, and explain the scheduled timeline to pay down the county debt.

Setting the Stage

In 2010, Cuyahoga County underwent a dramatic transformation with the formation of a new county government. For decades, county government was headed by three county commissioners. In fact, to this day, 86 of the 88 counties in Ohio are led by three county commissioners. In January, 2011, Cuyahoga County swore in its first county executive and 11 county council members, joining Summit County as the only other Ohio county with such a system. As the county was transitioning into the new government structure, several county projects from the previous system were in progress, including issuing over \$330 million in bonds for the construction of the Cleveland Convention Center and the Global Center for Health Innovation.¹ Additionally, bonds were issued for other capital projects, including the Hilton Convention Hotel and the new Cuyahoga County headquarters.² Without the bonds that were issued, the County would have had to identify alternative forms of payment for these capital expenses, which may have further impacted county services.

The term of the first county executive, Ed FitzGerald, came to a close at the end of 2014. During his first few months as the second county executive, Armond Budish met with department heads and community stakeholders to evaluate the county's budget situation. As County Executive Budish prepared to submit his first budget to Cuyahoga County Council for its review, he was faced with a dilemma. The County was facing a multi-million operating budget deficit *and* a considerable amount of debt.

From the County Executive Budget Proposal:

*"I want to be very clear that the biggest problem we inherited is debt and debt service. Over a number of years, past county governments promoted a number of important projects with the goal of improving our competitiveness and attracting business. But those projects were generally not paid for with cash. Instead, the county borrowed to pay these costs through the issuance of bonds. Now, our credit card is maxed out. The borrowing well is dry. To put it simply, we cannot responsibly borrow money for the foreseeable future."*³

He went on to say that this debt service creates "terrible pressure" on the annual operating budget, which affects a number of items, including justice and public safety, economic development, the Board of Elections, and other important county services. While there is a differentiation between county services funded by the General Fund Operating Budget and

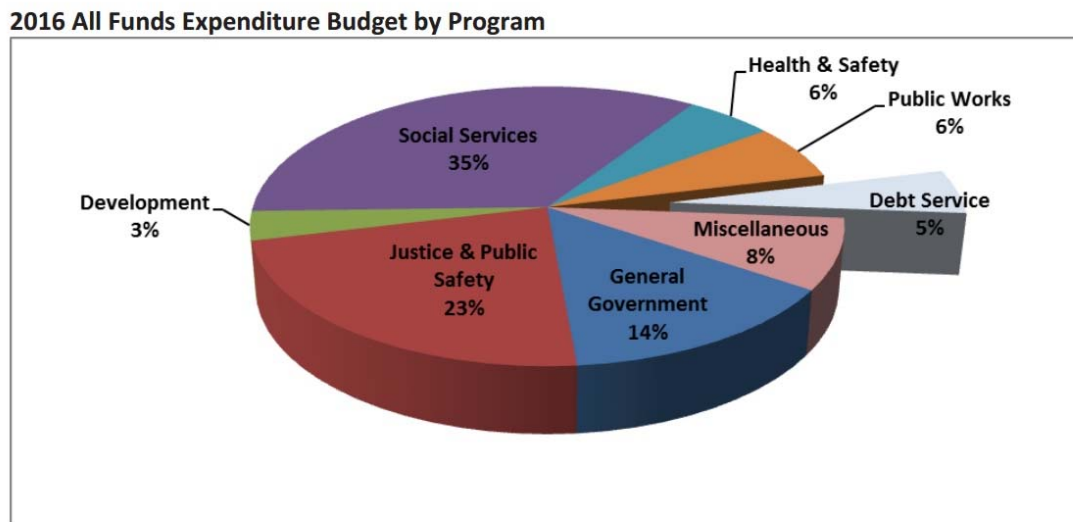
those funded by the Health and Human Services Levy, it is important to understand the fiscal state of the county and how difficult it can be to allocate financial resources to sudden needs as situations inevitably arise.

As he prepared the new budget, County Executive Budish asked each department to submit to him a budget proposal that reflected 10 percent cuts. Additionally, he announced that there would be no issuance of new debt without a dedicated revenue stream.

Ultimately, the county budget approved for 2016-2017 totaled \$1.4 billion each year (Figure #1 County Spending by Percentage).⁴ For more information on the budget process, read the [County Budgeting Matters](#) from November, 2015.

During the 2016-2017 county budget process, there was a presentation by Fiscal Officer Dennis Kennedy, CPA, about the current state of the county's debt. In testimony provided to Cuyahoga County Council, Fiscal Officer Kennedy stated that the county has about \$1 billion in debt.⁵ Specifically, the County has \$1,082,395,000 in total outstanding debt.

Figure 1: County Spending by Percentage



Source: Cuyahoga County 2016-2017 Budget Plan⁶

Although the debt service represents 5 percent of the total budget, the debt affects the short-term and long-term ability of the county to best provide support and services to its citizens. One way to better understand the size of the debt is to compare it relative to the overall budget itself. As noted above, the debt comprises approximately 5 percent of the current county budget. Another method is to compare the outstanding debt to other large counties in other parts of the state. Cuyahoga County is the largest county by population in Ohio, followed by Franklin County (Columbus) and Hamilton County (Cincinnati).

Table 1: Total Outstanding Debt in Three Largest Counties in Ohio

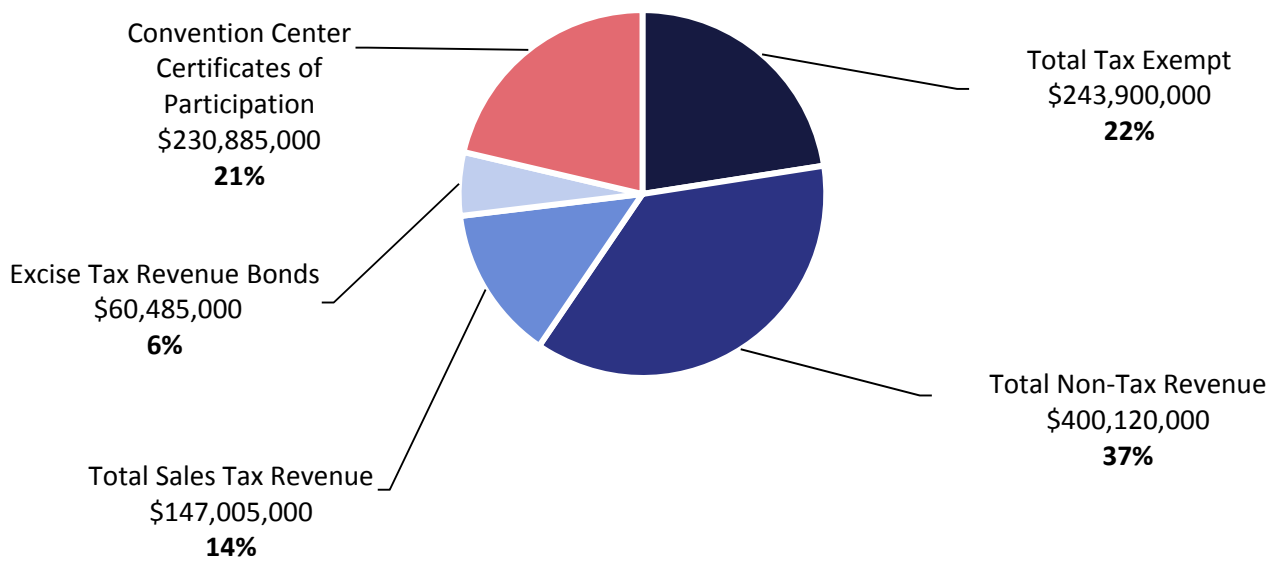
County Name	Total Outstanding Debt	County Population	Amount per capita
Cuyahoga County	\$1,082,395,000	1,255,921	\$861.83
Franklin County	\$288,600,000	1,251,722	\$234.37
Hamilton County	\$669,762,773	807,598	\$829.33

Sources: U.S. Census Population Estimate (July 1, 2015)
 Cuyahoga County Office of Budget Management
 Franklin County Comprehensive Annual Financial Report, December 2015, Table 18⁷
 Hamilton County 2015 Annual Information Summary, Page 107⁸

Breaking down the debt

A large portion of the \$1,082,395,000 debt has come from the issuance of bonds.

Figure 2: Percentage of total outstanding debt by types of bonds



Appendix.

What Is a Bond?

A bond is a loan that the county issues and a bond holder purchases. Bonds are essentially loans made to a government by bond holders, with the expectation that that money will be paid back by the government, with interest. The three main types of bonds pertinent to the discussion of the county’s debt are General Obligation Bonds, Sales Tax Bonds, and Certificates of Participation.

General Obligation Bonds

General Obligation Bonds are issued by the county. These bonds are paid back with property taxes⁹. These bonds that do not necessarily require a vote by citizens.

Sales Tax Bonds

Sales tax bonds are issued by the county and repaid with anticipated revenue from sales tax. These types of bonds are authorized by the State of Ohio in the Ohio Revised Code.¹⁰

Certificates of Participation

Certificates of Participation (COPs) are similar to bonds. COPs have a higher interest return, however, they are issued on projects that carry slightly more risk to bond purchasers.

Approximately \$230 million in COPs were used to pay a large portion of the Hilton hotel.¹¹

These COPs are being paid back in part by leftover revenue (\$93 million)¹² generated from the extension of the quarter-percent sales tax, first passed by Cuyahoga County Commissioners in 2007,¹³ to build out the financial capacity of the County (eventually, the County issued over \$330 million in new bonds that led to construction of the convention center¹⁴).

Excise Tax Revenue Bonds (a.k.a. "Sin" Taxes)

Taxes on alcohol and cigarettes are known as "excise" taxes, also commonly referred to "sin" taxes. Governments are able to issue bonds that are repaid by excise tax revenue. According to the Ohio Attorney General's office and the County Commissioner Handbook, in 1986, the General Assembly passed a law (ORC 307.696) that allowed for these taxes to help with the construction of sports facilities. This section was subsequently expanded to include tax revenue generated from cigarette and alcohol sales (R.C. 4301.421 — tax on the sale of beer, wine, and mixed beverages—and R.C. 5743.024 — tax on cigarettes).¹⁵

How Long Will it Take To Pay the Bonds Back?

According to testimony delivered by Cuyahoga County Fiscal Officer Dennis Kennedy, CPA, at the county budget hearing in October, 2015, the county expects to pay down the debt over the next 20 years. The amount of money per year that will be needed to reimburse the debt is expected be \$78,225,333.47 in 2016 and then peak in 2020 at close to \$100 million. The repayment will then fall gradually until 2028 and level off to about \$40 million for several years before things are completely paid off in 2035.

The amount of money that will be paid towards the debt each year until 2035 is outlined in Table 3.¹⁶

Table 3: Cuyahoga Co. Net Debt Service Repayment Schedule and Amount (in millions)

Year	Amount paid on debt (in millions)
2016	\$78.2
2017	90.1
2018	95.9
2019	96.1
2020	100
2021	92.1
2022	92.2
2023	91.5
2024	94.1
2025	90.2
2026	89.8
2027	87.1
2028	55.9
2029	41.9
2030	42.0
2031	40.3
2032	40.5
2033	40.6
2034	40.0
2035	29.9

Source: Cuyahoga County Office of Budget Management

It is worth repeating that the Budish Administration has said that, although it does have the ability, it will not issue any new bond debt without a dedicated revenue source.

As was mentioned earlier in this paper, the administration went on to testify that there were a number of projects that were funded in the past that have continued. The fact that the county is paying between \$30-\$100 million per year, every year, for the next 20 years will mean that there will be less money available in the General Fund Operating Budget.

Ongoing Questions and Observations

In the coming months and years, Cuyahoga County will deal with a multitude of issues that will need financial attention. What economic programs will continue to be funded that can sustain the economic momentum of neighborhoods through business development and transportation? With the hesitation to issue new bonds, how will the county approach large capital projects such as the MetroHealth campus transformation, the fast-approaching ends to the leases on sports complexes such as Progressive Field, and repairing or replacing an aging Justice Center?

In future publications, we will examine upcoming projects that will be in need of county taxpayer financing, and brainstorm solutions on potential avenues of funding that can help improve the fiscal health of the county and address ways to meet the needs of its citizens in the 21st century.

It is important that the county and the public be educated about the financial state in which the county currently finds itself, as well as be able to use this information as a measuring stick on how best to make economic decisions in the future. The Center for Community Solutions will continue to examine these, and other issues, and the impact on and implications for the residents of Cuyahoga County.

Appendix

Table 2: Description of Bonds in Figure 2

Tax Exempt		Total Sales Tax revenue		Excise Tax Revenue Bonds		Convention Hotel Project Certificates of Participation		Total Non-Tax Revenue	
Capital Improvement Bonds	\$106,350,000	Variable Purpose Sales Tax Revenue Bonds	147,005,000	Excise Tax Revenue Bonds	\$60,485,000	Convention Hotel Project Certificates of Participation	\$230,885,000	Gateway Arena Taxable	\$53,730,000
New Money and Refunding Bonds	\$101,165,000							Medical Mart/Convention Center Project Tax Exempt	\$221,040,000
Rock and Roll Hall of Fame and Museum	\$2,400,000							Medical Mart/Convention Center Project Taxable	\$50,890,000
General Obligation Refunding Bonds	\$33,985,000							Taxable Economic Development Revenue Bonds	\$48,860,000
								Brownfield Redevelopment Fund Taxable	\$14,085,000
								Community Redevelopment Program	\$9,105,000
								Shaker Square Tax-Exempt	\$2,410,000
<u>TOTAL</u>	\$243,900,000	<u>TOTAL</u>	\$147,070,000	<u>TOTAL</u>	\$60,485,000	<u>TOTAL</u>	\$230,885,000	<u>TOTAL</u>	\$400,120,000

*Excise tax to be repaid from sales of alcohol and cigarettes

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¹ CUYAHOGA COUNTY OFFICIAL STATEMENT: http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/MedMartOfficialStatement-121710.pdf

² CUYAHOGA COUNTY EXECUTIVE ARMOND BUDISH POISED TO INTRODUCE HIS FIRST TWO-YEAR BUDGET: http://www.communitysolutions.com/assets/docs/Public_Policy_incl_testimony/County/cuyahoga%20county%20executive%20armond%20budish%20poised%20to%20introduce%20budget%20updated2_10052015.pdf

³ http://council.cuyahogacounty.us/pdf_council/en-US/2016-2017Budget/2016-2017%20Recommended%20Budget.pdf

⁴ http://council.cuyahogacounty.us/pdf_council/en-US/2016-2017Budget/2016-2017%20Recommended%20Budget.pdf

⁵ <https://www.youtube.com/watch?v=BE-vKqk0eC0> (October 29th, 2015)

⁶ http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/2016-2017BudgetPlan.pdf

⁷ <http://www.franklincountyauditor.com/public/documents/pdf/b9d75abc-eace-6e76-59ccc2a1fc6140bc.pdf>

⁸ https://www.pfm.com/uploadedfiles/bondcalendar/Hamilton_County_OH_Various_Purpose_GO_POS.pdf

⁹ <http://codes.ohio.gov/orc/133.18>

¹⁰ <http://codes.ohio.gov/orc/133.081>

¹¹ Source: Cuyahoga County Office of Budget Management

¹² http://www.cleveland.com/business/index.ssf/2013/06/cuyahoga_county_cleveland_part.html

¹³ <http://www.ideastream.org/news/cuyahoga-commissioners-raise-sales-tax>

¹⁴ http://fiscalofficer.cuyahogacounty.us/pdf_fiscalofficer/en-US/obm/MedMartOfficialStatement-121710.pdf

¹⁵ <http://www.ohioattorneygeneral.gov/getattachment/f93b19b8-8a50-465f-9c1d-f306e8dbf00f/1991-007.aspx>

¹⁶ Cuyahoga County Office of Budget Management (includes headquarters rent)