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CREDIT OPINION
4 October 2022

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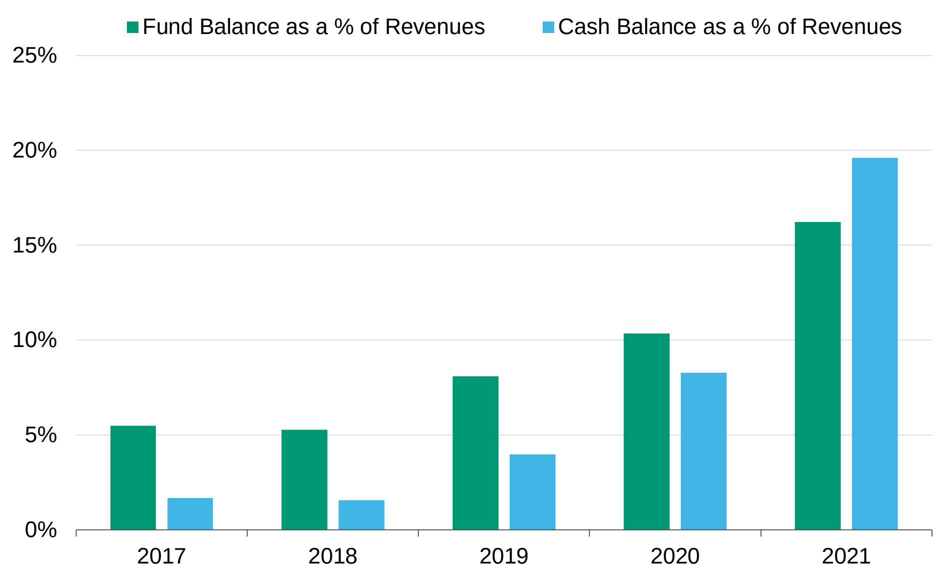
Monroe (County of) NY

Update to credit analysis following upgrade to A1 positive

Summary

Monroe County (A1 positive) is one of the economic engines of upstate New York (Aa1 stable). The county is home to numerous universities, hospitals and corporate headquarters. The county's financial flexibility improved significantly over the past three years as a result of conservative budgeting, careful expense management and covid relief monies. The moderate debt burden is manageable. Not only has management now had a multi-year trend of making its full pension payment, it has repaid the deferrals it took in previous years. Somewhat offsetting the county's strong financial performance are the operations at the county hospital, which continue to struggle putting an increased, albeit still manageable, burden on the county's General Fund.

Exhibit 1
Reserves and liquidity materially improve over the past two years



Revenues are net of sales taxes passed on to underlying local governments
Sources: audited financial statements; Moody's Investors Service

On October 4, 2022 Moody's upgraded the county's issuer rating and general obligation limited tax (GOLT) ratings to A1 from A2 and revised the outlook to positive from stable.

Credit strengths

» Large tax base growing at a modest rate

» Institutional presence of multiple universities and health care institutions

Credit challenges

» Maintaining reserves at improved levels

» Hospital operations continue to be weak leading to General Fund support

Rating outlook

The positive outlook reflects the expectation that management will maintain reserves at these newly improved levels.

Factors that could lead to an upgrade

» Maintenance or growth in reserves and liquidity

» Improved operations at the hospital

» Reduction in long-term liabilities

Factors that could lead to a downgrade

» Failure to maintain reserves at recently improved levels

» Continued financial pressure at the hospital

» Material weakening of the tax base

» Significant increase in long-term liabilities

Key indicators

Exhibit 2
Monroe (County of) NY

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value ($000)	$41,863,450	$42,583,510	$44,367,202	$45,953,610	$48,689,416
Population	748,680	744,248	743,341	743,084	743,084
Full Value Per Capita	$55,916	$57,217	$59,686	$61,842	$65,523
Median Family Income (% of US Median)	102.5%	103.0%	103.5%	103.0%	103.0%
Finances					
Operating Revenue ($000)	$950,833	$954,648	$971,082	$1,025,225	$1,101,950
Fund Balance ($000)	$52,226	$50,445	$78,701	$106,189	$178,809
Cash Balance ($000)	$15,995	$14,796	$38,593	$84,875	$216,175
Fund Balance as a % of Revenues	5.5%	5.3%	8.1%	10.4%	16.2%
Cash Balance as a % of Revenues	1.7%	1.5%	4.0%	8.3%	19.6%
Debt/Pensions					
Net Direct Debt ($000)	$406,185	$410,603	$398,912	$348,435	$350,980
3-Year Average of Moody's ANPL ($000)	$875,580	$767,374	$724,291	$805,564	$674,175
Net Direct Debt / Full Value (%)	1.0%	1.0%	0.9%	0.8%	0.7%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.3x	0.3x
Moody's - ANPL (3-yr average) to Full Value (%)	2.1%	1.8%	1.6%	1.8%	1.4%
Moody's - ANPL (3-yr average) to Revenues (x)	0.9x	0.8x	0.7x	0.8x	0.6x

Sources: US Census Bureau, Monroe (County of) NY's financial statements and Moody's Investors Service

Profile

Monroe County is located in western upstate New York. Home to the City of Rochester (A1 stable), the county has a population of approximately 743,000 according to the American Community Survey.

Detailed credit considerations

Economy and Tax Base - Regionally important economy backed by significant institutional presence

Monroe County's tax base will continue to grow, driven by population growth, continued investment in the local economy, and ongoing development. The county's economy has been relatively resilient over the past several decades, even through the 2008-2009 recession. Both assessed and full valuation grew annually through 2022; full value is a substantial $50.3 billion as of fiscal 2022. Additionally, while the City of Rochester (A1 stable), located in the county, has lost population in every decade since 1950, the county's population continues to grow.

Ever since the decline of a number of large corporations based in the city, such as Kodak, the city has looked to diversify its employment base, focusing on smaller companies. While the companies either relocating to or starting up in Rochester are smaller, they are generally well paying high tech jobs. Additionally, the downtown high-tech incubator in Rochester is becoming a destination for smaller companies. This, along with other smaller firms relocating into the city, has led to a revitalization of the downtown. Residential interest in the downtown, particularly among the millenials, has picked up, improving residential housing values. While the city has been improving, the suburbs remain very strong. The region is well known for its manufacturing of optics, photonics and imaging and this has led a number of small to medium sized firms to look at the county. The well-educated workforce is also a driver of companies looking to move into the region.

Higher education and healthcare institutions ("Eds and Meds") provide stability to the county's tax base and employment levels. The county is home to five higher ed institutions, including the University of Rochester (Aa3 stable) and the Rochester Institute of Technology (A1 stable). In total, the Eds and Meds sectors account for 25% of jobs in the county. The University of Rochester/Strong Memorial Hospital is the county's largest employer, and one of the top employers in all of New York State, at approximately 29,000.

Residential development continues, particularly in the suburban communities outside of Rochester, driving annual assessed value growth. Management expects residential development to continue over the near term.

Financial Operations and Reserves - Conservative budgeting drives operating surpluses

The county's financial flexibility is likely to remain sound given conservative budgeting, strong budgetary oversight and updated financial policies that look to maintain a higher level of reserves. Over the past two years, a combination of conservative budgeting on economically sensitive revenues, such as sales taxes, and tight expense controls, coupled with federal covid relief monies led to a substantial improvement in reserves and liquidity. Prior to this two year period, surplus operations were muted by management's decision to pay off pension deferrals. The payments were in excess of what the state legally required the county to pay, a prudent financial decision. Now that the prior deferrals are fully paid off, the surplus operations can fall to the county's fund balance.

Fiscal 2022 is trending positively. The county's key indicator report for the second quarter suggests surplus operations ranging from $6 million to $22 million. A number of uncertainties are causing the surplus to be uncertain, such as an economic recession and inflation. It's unclear if spending patterns witnessed over the past year and a half by county residents will continue and that will impact sales tax revenues. Additionally, inflation has caused some increases in gas, electricity and the cost of goods, if inflation worsens this will further pressure the estimated surplus. Positively, a recent settlement with the Seneca Nation of Indians resulted in a one-time, unbudgeted payment of $18.1 million to the county. The county did not budget for any Seneca money in 2022 so any additional monies received will be added to the surplus. Going forward, management will likely budget conservatively for the Seneca monies given the uncertainty surrounding gaming revenues in general. During fiscal 2021 and into fiscal 2022 the county booked the federal monies received for covid relief as an unearned revenue so it did not fall down to the bottom line. The county is likely to enter into a variety of different contracts that will release approximately $71 million to various local organizations and establish a number of internal projects totaling nearly $28 million. An additional $44 million is being set aside for a variety of initiatives.

The county's revenues are more reliable than that of other New York counties. While the audited financial statements show sales taxes accounting for nearly 40% of 2021 revenue, the county has a generous revenue sharing agreement with its underlying local governments. Of the $503 million in sales tax revenue collected, the county only retained 31%, or $189 million, in 2021, representing only 17% of total net revenues. This is significantly below the statewide average for counties. Property tax revenues, consistently collected at a 99% rate, account for 38% of revenues, net of shared sales taxes.

The county is exposed to a number of enterprise funds, most of which are healthy. The County's Solid Waste Fund, which has a long-history of financial struggles, has rebounded in recent years and ran a $4 million surplus in 2021. The fund still owes the county $12 million which the county booked as a non-spendable asset several years ago to take it out of its available reserves. It's likely the fund will continue paying down that loan over the next several years as operations continue to improve.

The county's hospital fund, however, continues to struggle. Over the past several years, the county has needed to contribute an increased subsidy to the hospital to help support operations. The county budgeted $8 million in 2022 and is expected to marginally increase that support in 2023. Additionally, the hospital recently hired a new financial manager which county management hopes will help to drive improved operations. However, overall bed usage is still well below pre-pandemic norms and it's unclear how operations will improve without an increase in bed usage. Failure to get operations at the hospital under control can lead to significant budget pressure to the county, as has been witnessed in a number of other counties across the state. As of now, there is no plan for the county to either sell or close the hospital. The county's ability to bring the hospital operations into balance will be a key credit factor moving forward. Positively, the county has set aside in reserves within the General Fund an amount equal to the hospital's accumulated deficit. if the hospital's operations were to improve, county management would likely move those monies to the county's reserves.

As a result of the significantly improved operations, the county is revising its lower and upper limits of its financial policy. The improvement in the policy will lead to improved financial flexibility.

Liquidity

The county has long been an issuer of cash flow notes to help support operations and bridge the gap between receipt of revenues. However, given the county's improved financial flexibility, the issuance of these notes has ended resulting in significant budgetary savings from the interest costs associated with the notes.

Debt and Pensions - Manageable debt position

The county's long-term liabilities are likely to remain manageable given a lack of material debt plans. The county will likely sell between $55 million and $75 million in Summer 2023, consistent with previous years. The county also has some short-term debt plans that are not material at this time.

Legal security

Payment of principal and interest on the county's general obligation bonds is backed by the county's faith and credit supported by the county's authority to levy such ad valorem property taxes as may be necessary to pay the bonds, as limited by New York State's legislative cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

All debt is fixed rate.

Debt-related derivatives

The county is not exposed to derivative agreements

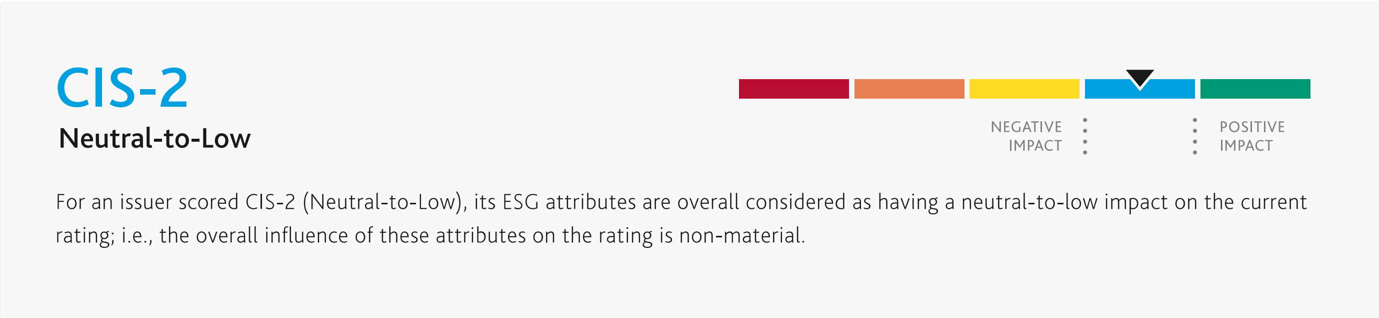
Pensions and OPEB

The county's pension and OPEB liabilities are manageable and well below peers state-wide. Based on 2020 pension and OPEB liabilities the county total liability amounted to approximately 218% of revenues. Given an increase in the discount rate being used to value the pension and OPEB liabilities, and an improvement in pension assets in 2021, the liability will decline over the next year or two.

ESG considerations

Monroe (County of) NY's ESG Credit Impact Score is Neutral-to-Low CIS-2

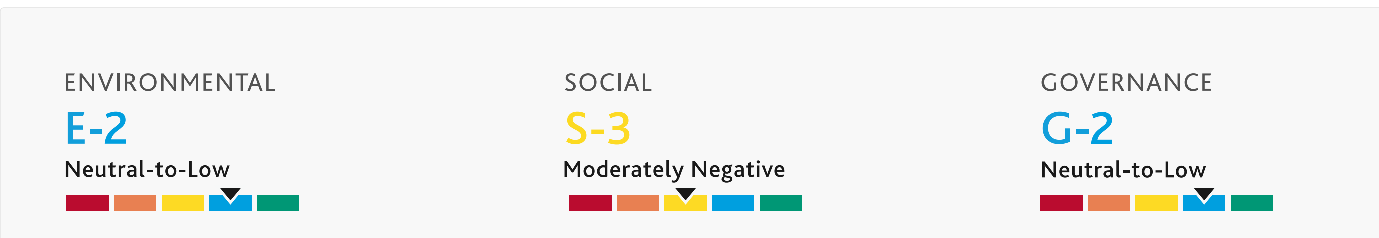
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Monroe's ESG CIS impact score is a 2, reflecting low exposure to environmental risks, moderate exposure to social risks and low exposure to governance risks.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

The county's overall environmental issuer profile score is (**E-2**), reflecting neutral to low risk. Located in northwest New York, all of the county's sub factors score neutral to low. Located near Lake Erie, the county does experience significant snowstorms during the winter months. While these storms can be severe it is offset by the experience in dealing with these storms and their overall impact on the county is low.

Social

Exposure to social risk is moderately-negative (**S-3**). While the City of Rochester's population has declined significantly over the past fifty years, Monroe County has fared better than the city. As the economic engine of the county, the city's socio-economic profile does weigh on the county as a whole. And while educational attainment significantly trails state wide averages within the City of Rochester, the surrounding suburbs generally do have strong educational attainment consistent with state wide averages.

Governance

Monroe's exposure to governance risk is neutral-to-low (**G-2**). While the county maintains reserves below peers, it does so on a consistent basis and manages its budget efficiently. It's exposure to institutional structure is consistent with most New York local governments. Policy credibility and effectiveness and transparency and disclosure do not pose a risk at this time.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 5

Monroe (County of) NY

Monroe County, NY

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$50,268,951	Aaa
Full Value Per Capita	$67,649	Aa
Median Family Income (% of US Median)	103.0%	Aa
Notching Adjustments:[2]		
Finances (30%)		
Fund Balance as a % of Revenues	16.2%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	13.3%	Aa
Cash Balance as a % of Revenues	19.6%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	19.7%	Aa
Notching Adjustments:[2]		
Outsized Contingent Liability Risk		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Notching Adjustments:[2]		
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.7%	Aaa
Net Direct Debt / Operating Revenues (x)	0.3x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.3%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.6x	Aa
Notching Adjustments:[2]		
Other		
Credit Event/Trend Not Yet Reflected in Existing Data Sets:		
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	A1

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Sources: US Census Bureau, Monroe County's financial statements and Moody's Investors Service

REPORT NUMBER 1344536

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