S&P Global
Ratings

Research

Summary:

Monroe County, New York; General Obligation

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Credit Profile		
US$49.37 mil pub imp serial bnds ser 2023 due 06/01/2043		
Long Term Rating	AA/Stable	New
Monroe Cnty GO		
Long Term Rating	AA/Stable	Upgraded
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term and underlying ratings on Monroe County, N.Y.'s general obligation (GO) bonds outstanding to 'AA' from 'AA-'.
- At the same time, we assigned our 'AA' long-term rating to the county's approximately $49.4 million series 2023 GO serial bonds.
- The outlook is stable.
- The rating change reflects significant reserve growth over the past several years, along with our expectation that it will continue to adhere to its conservative financial policies, leading to continued balanced operations over the near term while also experiencing ongoing economic expansion.

Security

The county's faith and credit GO pledge secures the 2023 GO bonds and GO debt outstanding, including the statutory authorization to levy ad valorem taxes on all real property in the county. Proceeds from this issuance will be used to fund various capital improvements across the county.

Credit overview

Monroe County's long-term rating reflects its strong financial management policies and practices, underpinned by a management team that adjusts budgetary assumptions to ensure continued financial balance. From fiscal-year end (FYE) 2020 to FYE 2022, the county grew available adjusted reserves from 8.3% of operating expenditures ($83 million) to 20.6% ($212 million). The county expects to draw down reserves to approximately $130 million over the next four to six years, but we expect it will maintain historically high reserve levels over the near term. Additionally, the county demonstrated the ability to adjust revenue assumptions and expenditures through the pandemic; we expect that it will continue to adjust its budget to limit reserve drawdowns only to planned expenditures.

The rating further reflects our view of the county's:

- Expanding economy, centered on manufacturing, with significant employment in higher education and health care;
- Well-embedded financial management policies and strong institutional framework;
- Consistently positive financial results, leading to reserve growth we expect to continue; and
- Limited fixed-cost pressure because of a stable debt profile, with low debt service costs and well-funded pensions.

Environmental, social, and governance

We analyzed the county's physical risks and determined that they are somewhat elevated due to flooding risk in certain sections of the county, given its location on the south shore of Lake Ontario. The county is undertaking resiliency projects aimed at mitigating potential flooding risk. We view the state's governance regarding the lack of a mechanism to prefund other postemployment benefits (OPEB) as a weakness for New York local governments, though that risk is manageable for Monroe County, given its moderate liability. Lastly, we consider social risks to be neutral considerations in our credit rating analysis.

Outlook

The stable outlook reflects our view that the county will maintain strong-to-very strong reserve levels through consistently balanced operations, notwithstanding planned reserve drawdowns.

Downside scenario

We could lower the ratings if the county significantly draws reserves beyond current projections.

Upside scenario

If Monroe County's economic metrics improve significantly, along with further strengthening of its formal financial policies, we could raise the rating.

Credit Opinion

Stable employment base in education and health care along with ongoing development in commercial and industrial sectors

Monroe County's economy remains robust, with rising assessed values, a strong labor market, and ongoing development. The county's largest employers, the University of Rochester and Rochester Regional Health, are well-embedded within the community and support interest in business relocation and expansion efforts. Management reports that approximately 26% of all county employment is in higher education or health care. Notable developments include an Amazon distribution facility, several food and beverage facilities and a concrete processing facility. The county's taxable valuation has grown steadily and has had little variation from overall upward trends in the recent recessions. We expect continued incremental growth in economic metrics over the near term.

Strong financial management conditions with well-established policies

The county is revising its budgetary reserve policy. The new policy requires the county to maintain combined assigned and unassigned general fund reserves between $120-140 million, with a target of $130 million, or approximately 10%

of the all-funds budget. This is an increase from the previous target range of $90-$110 million. While not a formal policy, it is reaffirmed in each budget and the county has consistently adhered to its target in recent years. We further understand that the county expects to revise the target range in order to maintain the targeted range midpoint at 10% of the budget.

Monroe uses trend data and conservative assumptions, including for sales tax, in its preparation of the budget; we believe recent results demonstrate its conservative approach and willingness to adjust the budget during uncertain financial periods. Management provides the county legislature with monthly budget-to-actual reports and quarterly projections related to year-end results. The legislature can amend the budget throughout the year.

The budget document contains an annual budget plus a two-year forecast of major revenue and expenditure items. County management also internally conducts a series of budget forecasts, including models that incorporate economic data and assumptions. In addition, management prepares a six-year capital improvement plan that is annually updated and includes funding source details for each project. The county adheres to a formal adopted investment policy consistent with state policy, with cash primarily invested in money market accounts; however, it does not report balances to the county legislature on a regular basis. Although Monroe does not have a formal debt management policy that sets out quantitative targets, its financial strategy included in the budget sets out how debt should be structured and how cash should be used for capital projects.

The institutional framework score for New York counties is strong.

Increasing reserves thanks to strong budgetary performance

In our calculation of budgetary performance, we adjust for sales tax revenue the county collects and shares with underlying municipalities. We also adjust for recurring transfers in and out of the general fund.

We understand from management that it expects to draw down reserves over the next few years to comply with its new reserve targets. Budgeted reserve uses will include maintaining a flat tax levy, sidewalk installation, and increased investment in the sheriff's offices. The county also may use additional funds for other capital or human services support. Outside the outlook period, reserves may fall to levels we consider strong from very strong. However, we expect the county's underlying financials will remain stable and future reserve levels will remain commensurate with the current rating. Our view of performance accounts for our expectation that near-term audited results may decline somewhat relative to recent large surpluses, particularly given plans to expend reserves.

The operating budget is primarily funded by property taxes (40% of budgeted revenue). Given the growing tax base and a consistent in-year collection rate greater than 98%, we believe this provides a stable primary revenue base. Sales and hotel taxes are approximately 19% of budgeted revenue; despite historical volatility, we believe management consistently budgets to account for unforeseeable volatility to limit budgetary pressure. State and federal aid accounts for 31%, and we expect these will generally be received close to budgeted amounts. We understand from management that fiscal 2023 revenue and expenditures are on budget.

Stable debt profile

Following this issue, Monroe has approximately $498 million in existing debt, including capital leases. We expect the county to issue new-money debt approximately equal to the annual principal payments, resulting in little change in debt metrics in the near term.

Limited pension liability but OPEB costs could grow over the long term

- We do not view pension liabilities as an immediate credit pressure for Monroe due to our opinion of its currently strong plan funding and limited escalating cost trajectory risk, despite its previous use of the employer contribution stabilization program.
- OPEB liabilities--depending on claims volatility and medical cost and demographic trends--could lead to escalating costs, given the county's inability to prefund these costs, which we view as a potential credit pressure.

Monroe participates in the following state-administered pension plans:

- New York State Employees' Retirement System: 104% funded, $91 million county proportionate share of the net pension asset.
- New York State & Local Police & Fire Retirement System: 99%, $170,000 proportionate share of the net pension liability.
- Defined-benefit health care plan that provides retiree health care until death (OPEB): 0% funded, with an OPEB liability of about $421 million, across governmental and business activities.

The New York State pension plans are well-funded, and with a 5.9% discount rate, we expect minimal cost volatility. In fiscal 2020, the county paid off all amounts outstanding due for prior-year pension amortizations. It pays its actuarially determined contributions in December, taking advantage of a small discount the state offers, as payments are not required until February.

Monroe--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Adequate economy				
Projected per capita EBI % of U.S.	94			
Market value per capita ($)	76,882			
Population			740,222	741,281
County unemployment rate (%)		3.4		
Market value ($000)	56,909,460	50,268,951	48,689,416	
Ten largest taxpayers % of taxable value	8.0			
Strong budgetary performance				
Operating fund result % of expenditures		10.7	7.2	2.6
Total governmental fund result % of expenditures		12.8	8.6	3.0
Very strong budgetary flexibility				
Available reserves % of operating expenditures		20.6	12.3	8.3
Total available reserves ($000)		212,333	125,908	82,510
Very strong liquidity				
Total government cash % of governmental fund expenditures		40	29	21
Total government cash % of governmental fund debt service		816	551	376

Monroe--Key credit metrics (cont.)				
	Most recent	Historical information		
		2022	2021	2020
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.9	5.2	5.5
Net direct debt % of governmental fund revenue	34			
Overall net debt % of market value	2.9			
Direct debt 10-year amortization (%)	78			
Required pension contribution % of governmental fund expenditures		3.1		
OPEB actual contribution % of governmental fund expenditures		3.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- 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 12, 2023)		
Monroe Cnty GO rfdg bnds serial bnds		
Long Term Rating	AA/Stable	Upgraded
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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Monroe Cnty GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
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Monroe Cnty GO (BAM)		
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Many issues are enhanced by bond insurance.		

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.