FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Monroe County, NY's IDR, GOs to 'A+'; Outlook Stable

Fri 11 Feb, 2022 - 1:32 PM ET

Fitch Ratings - New York - 11 Feb 2022: Fitch Ratings has upgraded the following Monroe County, NY ratings to 'A+' from 'A':

--Issuer Default Rating (IDR);

--Approximately $16.3 million outstanding limited tax general obligation (LTGO) bonds.

The Rating Outlook is Stable.

SECURITY

The bonds are general obligations of the county for which the county has pledged its full faith and credit and ad valorem tax subject to the 2011 state statute limiting property tax increases to the lesser of 2% or an inflation factor (the tax cap law). This limit can be overridden annually by a 60% vote of the county's governing body.

ANALYTICAL CONCLUSION

The rating upgrades reflect the county's marked improvement in gap closing capacity through increased reserve levels, strengthening its financial resilience. The county has an unassigned general fund balance policy to maintain reserves between 2.5%-4.4% of general fund spending, and continues to make strides to exceed the upper end of the threshold through proactive budget management practices.

The ratings are also driven by the county's low long-term liability burden and strong budgetary flexibility, and a relatively weak cash position. The county has significant legal ability to increase revenues and satisfactory ability to cut spending.

Economic Resource Base

The county is home to Rochester, and located on the southern shore of Lake Ontario in western New York. The county's 2020 U.S. census population of 759,443 has grown by 2% since fiscal 2010. Wealth levels are well below state averages and roughly in line with U.S. averages.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch believes that natural revenue growth prospects will continue to keep pace with inflationary growth, given the improved growth in taxable assessed value (TAV). The county has significant legal ability to increase revenues given its authority by supermajority council vote to exceed the New York State tax cap.

Expenditure Framework: 'aa'

Expenditure growth will likely remain in line with revenue growth prospects. The county's expenditure flexibility is solid and carrying costs for debt service, pension and other post-employment benefits (OPEB) are low.

Long-Term Liability Burden: 'aaa'

The long-term liability burden is low relative to the county's economic resource base with modest future borrowing plans.

Operating Performance: 'a'

The county's financial resilience has improved notably in recent years, enabling it to manage well through the recent economic downturn and current recovery period. Management has a consistent record of actively managing its expenses in support of efforts to lower property tax rates. Fitch expects the county to maintain adequate gap closing capacity through economic cycles.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained increases in general fund reserve levels that improve the county's gap closing capacity and strengthens its financial resilience;

--Sustained growth in the economy that leads to increased revenue growth prospects.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained weakening in the local economy that result in revenue growth below inflation;

--An inability to maintain general fund balances approximating current levels, weakening financial resilience.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT PROFILE

The county's economy has diversified from its manufacturing roots, and is home to a robust healthcare and higher education presence. The University of Rochester is the county's leading employer with approximately 31,637 employees, followed by Rochester Regional Health System at 17,594 and Wegmans Food Market at 13,434.

Fitch expects the county to benefit from ongoing development including Gallina Development Corp.'s purchase of the former Xerox 30-story office tower, which will be used to develop a combined office, residential and educational space to support the creation of an innovation center in the downtown area. Other notable developments include the South Park Development, LLC (an e-commerce distribution facility), and HYZON Motors, Inc., a hydrogen fuel cell technology company, both of which are expected generate additional jobs in the area. Recent unemployment statistics are trending below New York state's rates and are in line with U.S. rates.

Revenue Framework

General fund revenues are primarily composed of property taxes and intergovernmental revenues, accounting for almost 30% and 29% in fiscal 2020, respectively. The county's receipt of intergovernmental revenues has historically been determined by caseload trends for social services managed by the county as well as state and federal service mandates. Total countywide sales tax collections make up approximately 37% of fiscal 2020 general fund revenues. Almost 70% of sales tax collections, however, are shared with other local governments including the City of Rochester.

Fitch expects general fund revenues will continue to grow at a rate that approximates inflation based on the county's history of moderate growth with minimal volatility. Locally generated revenue collections are expected to remain stable based on improved economic conditions, including TAV growth. General fund revenue growth was just below the rate of inflation based on a 10-year CAGR through fiscal 2020.

The county retains substantial legal ability to raise revenues, despite a New York State law limiting annual property tax revenue increases to the lesser of CPI or 2%. The limit may be overridden if at least 60% of the total voting power of the local governing body approve proposed increase. The county held the tax rate at 8.99 mills from 2008 through 2018 and has lowered it in recent years due to the recent growth in TAV.

The county also has the ability to significantly increase revenues by billing for services to localities, referred to as chargebacks. The county has control over how much hotel tax revenue is allocated and distributed to local governments.

Expenditure Framework

The majority of the county's general fund expenditures are for health and welfare (39% of fiscal 2020 spending) and general government (36%); followed by public safety services (20%). State mandated costs for social services and economic assistance make up a significant amount of the county budget.

Fitch expects that expenditure growth will remain in line with to moderately above revenue growth based on modest growth in labor costs. New York State requires counties to share in Medicaid spending, although the state now covers all annual spending increases. Budgeted salary increases for fiscal 2022 are expected to be manageable, showing a 5% increase budget to budget.

Fitch believes that expenditure flexibility is solid. While mandated service costs account for over 70% of the budget, management has demonstrated an ability to adjust spending in times of weaker revenue performance. Carrying costs for pension, OPEB and debt service account for a low 8.6% of total governmental expenditures.

Long-Term Liability Burden

The long-term liability burden accounts for just over 5% of personal income, the majority of which relates to overlapping debt. The county's tax-supported borrowing plans to fund capital improvements are modest. The county's five-year Capital Improvement Plan (2022-2027) includes about $75.4 million in authorized but unissued debt that is expected to be issued between fiscal years 2023-2027.

The county participates in two of the state's defined benefit retirement systems, the State and Local Retirement System and the Police and Firefighters Retirement System. The ratio of combined pension assets to liabilities is 79% at the Fitch adjusted 6% rate of return assumption at December 2020. The unfunded actuarial accrued liability for other post-employment benefits (OPEB) is $608 million, or 1.4% of personal income.

Operating Performance

The county has historically maintained thin reserves, limiting its ability to withstand economic disruptions. The $1.3 billion general fund budget has been managed at close to break-even levels with the general fund reserve position relative to spending. Reserve levels have increased in recent years, ending fiscal 2020 with an unrestricted general fund balance of roughly 7% of general fund spending including transfers.

The $953 million fiscal 2021 general fund budget included a number of expense reductions and appropriated $24.6 million in available fund balance to offset general fund revenue losses. According to management, the county expects to exceed its upper unassigned fund balance threshold and increase its total general fund reserves significantly at fiscal 2021 year-end. This increase in reserves was largely attributed to public assistance and Medicaid spending coming in under budget, due to reduced caseloads and enhanced federal Medicaid support. Property tax and sales tax revenues also outperformed budget expectations.

The $996 million adopted fiscal 2022 general fund budget is balanced and about 4% above the fiscal 2021 budget. Salaries and benefits and public assistance remain the county's main budget drivers. The budget includes an appropriated general fund balance of $1.7 million, less than 1% of spending, for negotiated wage increases. Routine transfers to the debt service, road, hospital, library, and solid waste funds account for about 6% of spending. The fiscal 2022 property tax levy is expected to increase by about 10 million with a 2% increase in TAV compared to the 2021 budget. Fiscal 2022 year-over-year revenue projections from management are positive.

As of December 2020, the government-wide cash position is low at only 68 days of operations, and the county has historically relied on cash flow borrowing due to the timing of receipt of state and federal funding.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Monroe County (NY) [General Government]	LT IDR Upgrade	A+ Rating Outlook Stable	A Rating Outlook Stable

Monroe County (NY) /General Obligation - Limited Tax/1 LT	LT	A+ Rating Outlook Stable	Upgrade	A Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Lindsay Horne
Analyst
Primary Rating Analyst
+1 646 582 4462
lindsay.horne@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Shannon McCue
Director
Secondary Rating Analyst
+1 212 908 0593
shannon.mccue@fitchratings.com

Steve Murray
Senior Director
Committee Chairperson
+1 512 215 3729
steve.murray@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York
+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Monroe County (NY)	EU Endorsed, UK Endorsed

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