



RATING ACTION COMMENTARY

Fitch Affirms Monroe County, NY's GOs and IDR at 'A'; Outlook Stable

Thu 18 Feb, 2021 - 5:50 PM ET

Fitch Ratings - New York - 18 Feb 2021: Fitch Ratings has affirmed the following Monroe County, NY ratings at 'A':

--Issuer Default Rating (IDR);

--\$22.5 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 'A' IDR and GO rating are driven by the county's low long-term liability burden and strong budgetary flexibility, despite maintaining limited available general fund balance 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 2019 population of 741,770 has remained relatively unchanged over the past decade. Wealth levels are average when compared to the state and nation.

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 under the New York State tax cap.

Expenditure Framework: 'a'

Expenditure growth will likely remain in line with revenue growth prospects. The county's expenditure flexibility is adequate 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: 'bbb'

The county's financial resilience has improved in recent years, which provides the county the ability to manage through the current economic disruption caused by the pandemic. The county has a strong record of actively managing its expense budget in support of management's efforts to minimize and more recently lower property tax rates.

RATING SENSITIVITIES

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

--Continued improvement in the county's general fund reserve balance that results in improved financial resilience over time.

--Sustained growth in the county's tax base that leads to increased revenue growth prospects.

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

--A weakening in the local economy that results in revenue growth prospects that do not keep up with inflation over time.

--The inability to maintain general fund balances sufficient to provide the county cushion to address revenue pressures associated with the pandemic.

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 [\[https://www.fitchratings.com/site/re/10111579\]](https://www.fitchratings.com/site/re/10111579).

CURRENT DEVELOPMENTS

Sector-Wide Coronavirus Implications

The outbreak of coronavirus and related government containment measures worldwide has created an uncertain global environment for U.S. state and local governments and related entities. Fitch's ratings are forward-looking in nature, and Fitch will monitor the severity and duration of the budgetary impact on state and local governments and incorporate revised expectations for future performance and assessment of key risks.

While the initial phase of economic recovery has been faster than expected, GDP in the U.S. is projected to remain below its 4Q19 level until at least 3Q21. In its baseline scenario, Fitch anticipates a slower recovery in early 2021 with vaccine rollout to vulnerable, key workers and older individuals in 1H21, but limited for most of the population until late 2021. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the report "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update," published on Dec. 7, 2020, and "Fitch Ratings Updates Coronavirus Scenarios for U.S. State and Local Government," published on Dec. 16, 2020 on www.fitchratings.com.

Governor Andrew Cuomo declared a public health emergency for New York State due to the coronavirus on March 7, 2020. Subsequently, the governor's executive order, effective from March 20 through May 28, directed all New York residents to stay at home unless engaged in essential services or activities. The state began a gradual reopening beginning on May 29. As a result of the shutdown, the county saw operating revenue shortfalls in 2020 including a 50% budgetary shortfall in hotel taxes (\$4.4 million) and an estimated 4% to 5% shortfall in the county's share of local sales tax revenue (between \$6 million to \$8 million). Estimated sales tax collections in 2020 fell short of 2019 sales tax collections by approximately 2.4%.

The county implemented numerous expenditure reductions that resulted in approximately \$50 million in savings including a partial hiring freeze, which reduced labor costs by approximately \$22 million. The county received \$150 million in CARES Act funds, including \$129 million to support pandemic related responses and mitigation. The county reports \$40 million in relief funds remaining that will be spent in 2021. Year-end 2020 estimates indicate that the county ended 2020 with a general fund surplus between \$8 million to \$12 million.

The 2021 adopted general fund budget assumes an \$8 million (5.1%) decrease in sales tax revenue, driven in large part by the state withholding a portion of the county share sale tax revenue in order to fund distressed hospitals and to help offset the state aid and incentives for municipalities (AIM) reductions, and other reductions in intergovernmental revenue. The property tax levy is expected to

increase by \$11.5 million with a 5.9% increase in assessed value after the 2020 reassessment.

The budget includes a number of expense reductions and appropriates up to \$24.6 million in available fund balance including \$11.6 million to offset general fund revenue losses. The county has historically replenished much of budgeted use of general fund balance through conservative expenditure management and anticipates that the unrestricted fund balance will remain within its policy, which requires the county to maintain between \$35 million to \$55 million in reserves. The county has \$40 million in carry over CARES Acts funds available and has identified numerous cost-cutting directives that can be utilized in the event of deeper revenue declines.

CREDIT PROFILE

The county's economy has diversified from its manufacturing roots and is now 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 with 17,594. Other large employers include Wegmans Food Market, Paychex, Xerox and Lifetime Healthcare.

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, which are expected generate additional jobs in the area.

Unemployment rates historically have been in line with or slightly higher than the state's rates.

REVENUE FRAMEWORK

General fund revenues are primarily composed of property taxes and intergovernmental revenues, accounting for almost 30% and 39.4% of 2019 gross general fund revenues, 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. Almost 70% of the county's sales tax collections are shared with other local governments including the City of Rochester. The county's share of sales taxes makes up approximately 15% of general fund revenues.

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 2019 and incorporated reductions in state and federal aid from lower social service caseloads driven by improved economic opportunities in the local tax base. Intergovernmental aid for 2021 is expected to decline given the state's withholding of revenues to fund distressed hospitals and other fiscal pressures, although the state withholding is expected to be temporary.

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 by a supermajority of the local governing body. 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 (42% of total 2019 spending) and public safety services (20%). State mandated costs for social services and economic assistance comprise 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 2021 are expected to be manageable, adding \$5.2 million budget to budget. Four of the county's nine labor contracts expire at the end of 2021 with negotiations expected to yield modest salary increases in future years.

Fitch believes that expenditure flexibility is adequate, although mandated service costs account for a significant portion of the budget. The county was successful in reducing costs in 2020 through the implementation of a partial hiring freeze, contract reductions, delaying cash funded capital projects and reducing non-mandated programs. County officials report that many of these actions are replicable in 2021.

Carrying costs for pension, OPEB and debt service account for a low 8.8% of general fund expenditures. Pension costs are expected to remain low even though the county participated in the state pension stabilization plan in 2010, which allowed local governments to amortize for 12 years a portion of annual pension expenses. The county pre-paid over \$10 million of the outstanding pension deferral balance in 2019 and the remaining balance of \$12.6 million was paid in 2020.

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 are modest and include a planned issuance of between \$55 million to \$70 million in 2021 to fund capital improvements and a potential refunding for budgetary savings.

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 85% at the Fitch adjusted 6% rate of return as December 2019. The unfunded actuarial accrued liability for other post-employment benefits (OPEB) is \$578 million, or 1.5% of personal income.

OPERATING PERFORMANCE

The county has historically maintained thin reserves, limiting its ability to withstand economic disruptions. The \$1.24 billion general fund budget has historically been managed at close to break-even levels with the general fund reserve position relative to spending fluctuating between a 1% deficit and a 2.2% balance from 1993 through 2018. Reserve balances have increased in recent years, increasing the unrestricted general fund balance to almost 5% of general fund spending including transfers, and management estimates another healthy increase for year-end 2020.

Given ongoing revenue pressure, Fitch believes the current financial position will likely narrow by year end 2021, although county officials expect the unrestricted general fund balance to remain within its policy of between \$35 million to \$55 million, roughly between 2.5% and 4.4% of general fund spending.

Operating performance has improved in recent years, with modest surpluses generated every year since 2014, including \$21.7 million and \$35.6 million surpluses in 2018 and 2019, respectively. Fitch believes that the county has the ability to manage through the current pandemic related economic disruption, given its improved financial position, significant legal ability to increase revenues, and capacity to make expenditure cuts.

The government-wide cash position is low at only 64 days of operations and the county relies on cash flow borrowing due to the timing of receipt of state and federal fund. The par amount issued has been steadily declining by \$5 million per year from \$75 million in 2015 to a planned \$45 million in 2021 or less than 14% of general fund state and federal aid receipts.

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

[VIEW ADDITIONAL RATING DETAILS](#)

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Additional information is available on www.fitchratings.com**APPLICABLE CRITERIA**[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 27 Mar 2020\) \(including rating assumption sensitivity\)](#)**APPLICABLE MODELS**

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

FAST States & Locals - Fitch Analytical Stress Test Model, v2.4.0 (1)

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Monroe County (NY)

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