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Ratings

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Summary:

Monroe County, New York; General Obligation

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

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Summary:

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Credit Profile		
US$34.603 mil pub imp serial bnds ser 2022 due 06/01/2042		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' rating to Monroe County, N.Y.'s series 2022 $34.603 million general obligation (GO) serial bonds. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the county's existing GO bonds. The outlook is stable.

The county's faith and credit GO pledge secures the 2022 GO bonds and GO debt outstanding, including the statutory authorization to levy ad valorem taxes on all real property in the county. This is subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on municipalities' ability to increase the real property tax levy annually.

Proceeds from this issuance will be used to fund various capital improvements across the county.

Credit overview

Monroe County's credit profile reflects its strong financial management policies and practices and limited fixed-cost pressures because of well-funded pension plans. The county's other postemployment benefit (OPEB) liability cannot be prefunded, yet remains manageable compared with that of peers in the state. Sales taxes have rallied after a COVID-19 pandemic-induced slump in fiscal 2020, contributing to strong financial performance in fiscal 2021 and expectations for a surplus in fiscal 2022. While the county will use fund balance for cash-funded capital projects, we expect its recently improved reserve position will remain at least strong notwithstanding potential cost pressures from higher inflation.

The rating reflects our view of the county's:

- Expanding economy centered on education and health care;
- Strong finances and increasing reserves;
- Well-embedded financial management policies and strong institutional framework; and
- Limited fixed-cost pressure because of well-funded pensions.

Environmental, social, and governance

We have analyzed the county's environmental 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. That said, management is undertaking a number of resiliency projects aimed at mitigating potential flooding risk. We view the state's governance regarding the lack of a mechanism to prefund 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.

Stable Outlook

Upside scenario

If Monroe County's economic metrics improved significantly or the county increases reserves to very strong levels through sustained positive operating performance, while addressing long-term liabilities, we could raise the rating.

Downside scenario

We could lower the ratings if sustained budgetary pressure leads to significant drawdowns of reserves.

Credit Opinion

Expanding economy centered on education and health care

Monroe County's economy remains robust, with rising assessed values, a strong labor market, and ongoing industrial and commercial developments. The county's unemployment rate has recovered well from a spike during the pandemic and at 3.3% was below state and national averages in April 2022. The biggest commercial project, a 2.6 million square foot Amazon warehouse and distribution center, is under construction and is expected to create more than 1,000 new jobs upon completion. Monroe's largest employers, University of Rochester and Rochester Regional Health, are a stabilizing influence on the economy. As a result of the county's economic resilience, the residential real estate market remained extremely strong in the past year, with median home sale prices increasing by 12% in 2021. Overall, we expect the economy will continue to expand incrementally over our outlook horizon.

Strong financial management with well-established policies

The budget includes a policy of holding combined assigned and unassigned reserves between $55 million-$75 million for cash flow purposes. The county met or exceeded this policy in the past three fiscal years and is planning to increase the target range to $90 million-$110 million with the fiscal 2023 budget.

Monroe uses trend data and conservative assumptions, including for sales tax, in its preparation of the budget. 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, which 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.

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.

Monroe's financial performance remains strong, with recurring surpluses since fiscal 2014. In fiscal 2021, the county's largest revenue sources, sales tax (14% of general fund revenues) and property tax (40%) had positive variances because of the overall economic recovery. Sales taxes were $31.2 million higher than budget and property taxes were $6.6 million higher than budget. In addition, the county had ongoing expenditure savings because of staffing vacancies and reduced Medicaid costs because of enhanced federal Medicaid sharing. As a result, it was able to cash fund approximately $10 million in capital projects and still add approximately $43.4 million to fund balance, increasing reserves to 12.3% of adjusted general fund expenditures, which we consider strong.

Revenues and expenditures are already tracking more favorably compared with budget so far in fiscal 2022. The budget conservatively budgeted sales tax revenue below fiscal 2021 actuals but collections in the first four months are already 16% higher than in the previous year. Moreover, Monroe received an unbudgeted $18 million revenue-sharing payment from the state under the Seneca Nation gaming and casino settlement. While personnel costs were budgeted to increase, among other things, because of labor agreement settlements and new positions, management expects savings because of ongoing vacancies. Overall, management expects another surplus in fiscal 2022 without the use of fund balance appropriation, which will help with the maintenance of strong reserves.

Reserves are above policy levels, which are currently $55 million-$70 million. To bring available reserves closer to the policy range, the county will:

- Increase the fund balance policy reserve targets to $90 million to $110 million;
- Spend approximately $17 million on various capital improvements;
- Spend $8.5 million on an anti-violence program in the next five years; and
- Appropriate $10 million to offset an increase to next year's tax levy.

Despite the anticipated spenddown of reserves, we expect available fund balance will remain what we consider strong. The county also has $144.1 million in American Rescue Plan Act funds available to spend over the next couple of years and is currently seeking input from the community on the use of this money. Thanks to the influx of federal relief funding, liquidity remained very strong throughout the pandemic and the county did not have to issue revenue anticipation notes.

Limited fixed-cost pressures, including well-funded pensions

Following this issue, Monroe has approximately $449.7 million in existing debt, including capital leases. Management confirms plans to issue approximately $40 million-$60 million in new money debt annually, which is approximately equal to the county's principal payments. We do not expect to change our view of the county's debt profile.

Pension and OPEB liabilities:

- 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, 99.95% funded with the county's share of the net pension liability equal to $1.0 million;
- New York State & Local Police & Fire Retirement System, 95.8% funded with the county's share of the net pension liability equal to $521,000;
- Monroe County's defined-benefit health care plan that provides retiree health care until death, which was 0% funded, with an OPEB liability of about $526.7 million, across governmental and business activities.

The New York State pension plans are well funded and the recently reduced discount rate of 5.9%, down from 6.8%, is below that of national peers, reducing the risk that local governments would experience cost escalation for contributions. In fiscal 2020, the county paid off all outstanding amounts due for prior year pension amortizations and paid its actuarially determined contributions in December, taking advantage of a small discount the state offers, given payments are not required until February.

Strong institutional framework

The institutional framework score for New York counties is strong.

Monroe County, New York -- Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Adequate economy				
Projected per capita EBI % of U.S.	91			
Market value per capita ($)	67,814			
Population			741,281	747,402
County unemployment rate(%)		5.2		
Market value ($000)	50,268,951	48,689,416	45,953,610	
Ten largest taxpayers % of taxable value	8.0			
Strong budgetary performance				
Operating fund result % of expenditures		7.2	2.6	3.8
Total governmental fund result % of expenditures		8.6	3.0	3.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.3	8.3	6.6
Total available reserves ($000)		125,908	82,510	61,563
Very strong liquidity				
Total government cash % of governmental fund expenditures		29	21	18
Total government cash % of governmental fund debt service		551	376	322

Monroe County, New York -- Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		5.2	5.5	5.6
Net direct debt % of governmental fund revenue	23			
Overall net debt % of market value	3.3			
Direct debt 10-year amortization (%)	83			
Required pension contribution % of governmental fund expenditures		4.3		
OPEB actual contribution % of governmental fund expenditures		2.8		
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 13, 2022)		
Monroe Cnty GO		
Long Term Rating	AA-/Stable	Affirmed
Monroe Cnty GO rfdg bnds serial bnds		
Long Term Rating	AA-/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Ratings Detail (As Of June 13, 2022) (cont.)		
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
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.