S&P Global
Ratings

Research

Summary:

Monroe County, New York; General Obligation

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Summary:

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Credit Profile		
US$69.96 mil pub imp serial bnds ser 2024 due 06/01/2044		
Long Term Rating	AA/Stable	New
Monroe Cnty GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Monroe County, N.Y.'s approximately $69.96 million series 2024 general obligation (GO) public improvement serial bonds.
- At the same time, we affirmed our 'AA' long-term and underlying ratings on the county's GO debt outstanding.
- The outlook is stable.

Security

The county's faith and credit GO pledge secures its GO debt, including the statutory authorization to levy ad valorem taxes on all real property within its borders. 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. As financial performance has tempered following the pandemic, the county has been able to grow its available reserves to nearly 20%, with planned drawdowns based on its recently adopted reserve policy. Additionally, it demonstrated the ability to adjust revenue assumptions and expenditures through the height of the pandemic; we expect that it will continue to adjust its budget to limit reserve drawdowns only to planned expenditures and to account for the nursing home deficit, which is currently supported by the general fund.

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 (OPEBs) as a weakness for New York local governments, though that risk is manageable for Monroe County, given its moderate liability. Lastly, we consider social factors 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 to offset the nursing home deficit, through consistently balanced operations, notwithstanding planned reserve drawdowns.

Downside scenario

We could lower the ratings if our view of the county's available reserves weakens beyond current projections.

Upside scenario

If Monroe County's economic metrics improve significantly, along with further strengthening of its available reserves to levels comparable with those of higher rated peers, we could raise the rating.

Credit Opinion

Tax base growth continues supported by access to Rochester metropolitan area

Monroe County's economy continues to grow, with assessed and market values increasing by approximately 13% each of the last two years. 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. Officials continue efforts to diversify the workforce toward private employment, primarily in the education and medical sectors. Several industrial and manufacturing projects are currently underway, with total investment of approximately $75 million and with nearly 100 jobs generated. We expect continued incremental growth in economic metrics over the near term.

Strong financial management conditions

Monroe County 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. Management also internally conducts a series of budget forecasts, including models that incorporate economic data and assumptions. In addition, it 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 County 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 county adopted a fund balance policy in August 2023 which stipulates it will maintain fund balance within $10 million (plus or minus) of 10% of expenditures, to which it currently adheres.

The institutional framework score for New York counties is strong.

Consistent financial results with the ability to manage reserves

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. The county's primary general fund revenue sources consist of sales taxes (40%), property taxes (27%), and state aid (15%).

In fiscal 2023, the county generated a modest surplus compared to prior years, with most revenue sources outpacing expenditures, resulting in an approximately $20 million addition to available fund balance to $234.6 million, or 20.3% of expenditures. The fiscal 2024 budget totaled $1.5 billion, an increase of 9% compared to the prior year to account for higher payroll and benefits, public assistance benefits and Medicaid, and higher spending for contractual services. and based on performance to date, most revenue is exceeding budget projections with the exception of sales tax, which fell short of the budget due to more tempered performance than expected. The 2024 budget also included a fund balance appropriation of $44.31 million, but based on performance to date, officials are expecting closer to break-even results.

At the same time, the county continues to support its Community Hospital (nursing home) through general fund subsidies which totaled $14.1 million in fiscal 2023. The nursing home's unrestricted net deficit totals $58.9 million. A portion of this (approximately $18 million-$20 million) will likely be offset by federal Medicaid contributions. According to officials, the remainder (approximately $40 million) is offset by an analogous amount in the general fund assigned balance. In addition, the county's new fund balance policy reflects a targeted available fund balance of approximately $146.45 million based on the most recent fiscal results. To this end, the county plans to use the excess (approximately $75 million) to fund balance appropriation for capital projects, its local share of Medicaid, and contract settlements. As a result, we expect that reserves could fall to levels we consider strong from very strong.

Overall, 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. However, should the chronic financial weakness associated with the nursing home persist to the point that the associated deficit accounts for a significant portion of available fund balance, it could weaken our view of the county's financial stability.

Stable debt profile

Following this issue, Monroe County has approximately $570.3 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 County 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 County participates in the following state-administered pension plans:

- New York State Employees' Retirement System: 90.8% funded, $224.8 million county proportionate share of the net pension asset.
- New York State & Local Police & Fire Retirement System: 87.4%, $2.3 million proportionate share of the net pension liability.
- Defined-benefit health care plan that provides retiree health care until death (OPEBs): 0% funded, with an OPEB liability of about $430 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. The county has not amortized any portion of its pension bill since 2017, and in fiscal 2020, it paid off all outstanding amounts due for prior-year 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 County, New York -- Key credit metrics				
	Most recent	**Historical information**		
		2023	**2022**	**2021**
Strong economy				
Projected per capita EBI % of U.S.	96			
Market value per capita ($)	83,412			
Population			775,906	740,222
County unemployment rate(%)			3.4	
Market value ($000)	64,719,823	56,909,460	50,268,951	
Ten largest taxpayers % of taxable value	10.1			
Strong budgetary performance				
Operating fund result % of expenditures		1.9	10.7	7.2
Total governmental fund result % of expenditures		5.7	12.8	8.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		20.3	20.6	12.3
Total available reserves ($000)		234,614	212,333	125,908
Very strong liquidity				
Total government cash % of governmental fund expenditures		38	40	29
Total government cash % of governmental fund debt service		808	816	551
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.7	4.9	5.2
Net direct debt % of governmental fund revenue	27			
Overall net debt % of market value	2.7			
Direct debt 10-year amortization (%)	74			
Required pension contribution % of governmental fund expenditures		3.5		
OPEB actual contribution % of governmental fund expenditures		3.0		

Monroe County, New York -- Key credit metrics (cont.)				
	Most recent	Historical information		
		2023	2022	2021
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

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 11, 2024)		
Monroe Cnty GO		
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 (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Monroe Cnty GO (BAM)		
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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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.