

RatingsDirect®

Summary:

Dutchess County, New York; Appropriations; General Obligation

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Summary:

Dutchess County, New York; Appropriations; General Obligation

Credit Profile

US\$22.204 mil pub imp bnds ser 2014 due 05/01/2034

Long Term Rating

AA+/Stable

New

Dutchess Cnty Wtr & Wastewtr Auth, New York

Dutchess Cnty, New York

Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty)

Long Term Rating

AA/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its long-term rating of 'AA+' to Dutchess County, N.Y.'s series 2014 general obligation (GO) public improvement bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating on Dutchess County Water & Wastewater Authority's water service revenue bonds, supported by Dutchess County. The outlook is stable for all ratings.

A pledge of the county's faith and credit secures the series 2014 bonds. Proceeds will be used to fund various capital projects, including highway and bridge improvements and costs related to the county's upcoming jail construction.

The 'AA+' rating reflects our assessment of the following factors for the county:

Strong economy

We consider Dutchess County's economy to be strong with access to the broad and diverse New York City metropolitan area. Dutchess County's projected per capita income is strong at 115% of the nation. Per capita market value is adequate to strong at \$99,000. Located along the Hudson River, the county is bounded by Connecticut to the east and Columbia and Putnam counties in New York to the north and south. It is a mix of urban, suburban, and rural areas. IBM Corp. is the county's leading private employer with roughly 10,000 employees spread over several locations. IBM recently announced plans to sell the global commercial semiconductor technology business to GLOBALFOUNDRIES (GF). Most of IBM's microelectronics division employees in East Fishkill will become employees of GF. Management reports there are currently about \$2 billion worth of projects in various stages of development and that the county is actively involved in the revitalization of the Hudson River waterfront. Unemployment in the county in 2013 was 6.8%. The county's 10 leading taxpayers account for a diverse 4% of assessed value (AV). We understand that there are currently no significant tax appeals by any of the county's large taxpayers.

Strong budgetary flexibility

Budgetary flexibility is strong, with reserves above 9% of expenditures for the past several years and no plans to significantly spend them down. During the year ended Dec. 31, 2012, the county elected to change its revenue

recognition period for government funds to 90 days. Previously, revenue estimated to be received within one year after the end of the current fiscal period was considered available and recognized as revenue in governmental funds. Fund balance at Dec. 31, 2011, has been restated and reduced by \$12.38 million to remove revenue recognized in the prior year beyond the 90-day availability period. The county feels this is the preferable policy of revenue recognition and that it more accurately reflects its availability period under the modified basis of accounting. This is an accounting change related to when revenue is recognized and did not affect the total amount of revenue the county received or the county's cash flow.

For audited fiscal 2013, available fund balance increased to \$41.3 million, or a strong 11% of expenditures adjusted for sales tax distributions, from \$34.5 million the previous year. Dutchess County anticipates reserves for 2014 will be higher than in 2013 due to another projected operating surplus. We understand that management has never exceeded the state's 2% tax levy cap and that the proposed 2015 budget will not include any tax levy increase.

Strong budgetary performance

The county's budgetary performance has been strong overall, with break-even or positive operating results for the past four audited fiscal years and another operating surplus projected for 2014. Audited 2013 ended with a surplus of 1.6% for the general fund and 1.5% for total governmental funds, after adjustments for capital outlay expenditures financed from grants and bond proceeds as well as recurring transfers out of the general fund. For 2014, management projects ending the year with another surplus. Management reports that despite lower-than-budgeted sales tax revenues due to the repeal of the energy sales tax, officials expect an operating surplus driven largely by unbudgeted state aid and approximately \$3 million in savings from unfilled positions as well as lower-than-anticipated state pension contributions.

We understand the 2015 budget is not yet finalized; however, that management doesn't expect expenditures to increase from 2014. Currently, all of the county's union contracts are in various stages of negotiation. Despite the financial uncertainties related to these unsettled contracts, we believe that the county's history of conservative forecasting, coupled with the projected strong performance in 2014, offset these concerns. Finally, while sales tax revenue makes up the largest portion of the county's revenue base at 40%, management budgets conservatively and has not experienced significant performance volatility as a result of this revenue stream. Property taxes comprise 26% of revenue, followed by grants and state aid at 25%.

Very strong liquidity

Supporting the county's finances is liquidity we consider very strong, with total government available cash at 10.4% of total governmental fund expenditures and over 1.9x debt service. We believe Dutchess County has strong access to external liquidity as it has issued GO and appropriation bonds during the past 15 years. The majority of the county's cash is invested in collateralized bank deposits and certificates of deposit.

Strong management conditions

We view the county's management conditions as strong and financial practices good under our Financial Management Assessment. The county's conservative budgeting practices and budget monitoring, with regular reports submitted to the board, are strengths. The county maintains a five-year capital improvement plan, which is reviewed and reprioritized yearly and has funding sources identified. While not currently formalized, management prepares

long-term financial forecasts. The county has a formal reserve policy to maintain an undesignated general fund balance of 5%-10% of net general fund revenue. Should fund balance exceed 10%, funds will be used to provide property tax relief through offsetting current-year operating expenses or to pay down or avoid indebtedness.

Very strong debt and contingent liability profile

In our opinion, the debt and contingent liability profile is very strong, with total governmental fund debt service at 5.3% of total governmental fund expenditures, and net direct debt at 20.4% of total governmental fund revenue. Overall net debt is low at 2.1% of market value. The county has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The county typically issues between \$6 million and \$25 million in bonds annually to finance capital improvements. While in the early stages, within the next five years, management expects to issue a significant amount of debt to build a jail at an estimated cost of \$125 million to \$200 million. While the additional debt related to the jail construction could pressure the county's debt profile, we expect management's conservative budgeting and expectation of long-term savings from the project to offset the projected increase in long-term liabilities.

The county participates in the New York State and Local Employees' Retirement System (ERS). In addition, all faculty and administrators of the Dutchess Community College have the option to participate in the New York State Teacher's Retirement System or the Teacher's Insurance and Annuity Association, College Retirement Equities Fund. Both are cost-sharing, multiple-employer retirement systems. The county contributes 100% of its annual required contribution and does not amortize its pension costs. Other postemployment benefits (OPEB) are funded on a pay-as-you-go basis. As of the last valuation date, Dec. 31, 2013, the county's unfunded actuarial accrued liability was \$289.95 million. Total pension and OPEB contributions were about 6.5% of expenditures in fiscal 2013.

Strong Institutional Framework

We consider the Institutional Framework score for New York counties strong.

Outlook

The stable outlook reflects our view of the county's strong economy with access to the broad and diverse New York City metropolitan area. The county's consistently strong performance enhances stability. We do not expect the county's very strong debt profile to change in the next two years as capital needs are limited. However, over the next four to five years, we do expect the county to issue a sizable amount of debt to finance the construction of a jail. While this additional issuance could affect the debt profile, we do not expect a change in the rating, all else being equal. The rating should also remain stable in the next two years based on our view that management will maintain at least strong budgetary flexibility and liquidity despite uncertainties surrounding union contract negotiations. While unlikely, a significant deterioration in reserves could hurt the rating. Conversely, sustainable improvement in local economic indicators and in the county's available reserves could positively affect the rating, all else being equal.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of October 22, 2014)

Dutchess Cnty Wtr & Wastewtr Auth, New York

Dutchess Cnty, New York

Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) svc agmt rev bnds (Dutchess Cnty) ser 2001 dtd 11/13/2001 due 10/01/2002-2011 & cap apprec. bnds du

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) wtr svc agmt rev bnds (Dutchess Cnty) ser 2011 due 10/01/2041

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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