

RatingsDirect®

Summary:

Dutchess County, New York; Appropriations; General Obligation

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Credit Profile

US\$40.0 mil pub imp serial bnds ser 2018 B due 03/01/2048

Long Term Rating

AA+/Stable

New

US\$14.95 mil pub imp serial bnds ser 2018 A due 03/01/2038

Long Term Rating

AA+/Stable

New

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Dutchess County, N.Y.'s series 2018A and 2018B public improvement general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the county's GO debt outstanding and its 'AA' rating on the Dutchess County Water & Wastewater Authority's service revenue bonds, issued for Dutchess County. The outlook is stable for all ratings.

Dutchess' faith-and-credit pledge secures the county's GO debt. The pledge includes the statutory authorization to levy ad valorem taxes on all real property in the county, subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on the ability of municipalities to increase the real property tax levy year over year.

Series 2018A proceeds will fund various capital projects in the county. The series 2018B proceeds will fund commencement of the county justice and transition center project.

The rating on the authority's service revenue bonds reflects our view of the county's obligation under the service agreement to pay debt service via county general fund appropriations if, for any reason, revenues from assessments on properties in the water district are insufficient. We rate these obligations one notch lower than the county's general creditworthiness (as reflected in the GO rating) to reflect the appropriation risk associated with the service agreement. We view these bonds as having a strong relationship to the obligor given that these obligations provide funding for projects we believe are significantly important to the obligor. In our opinion, there is no unusual political, timing, or administrative risk related to the debt payment. Debt service is first payable from the authority's revenue. The authority has agreed, pursuant to the service agreement, to raise money that is sufficient to pay operating expenses through the fixing, charging, and collection of water and sewer rates. If this revenue is insufficient to meet operating expenditures, the county is obligated to make up the deficiency, pursuant to a water and sewer service agreement, with the revenue appropriated from the general fund, if necessary. The obligation to make service fee payments is unconditional, unless the authority fails to provide potable water in excess of 25% of the service area for 90 consecutive days. The county can only avoid its obligation if a service failure were to occur, which, in our opinion, is a very remote possibility. A debt service reserve fund provides additional security.

Our assessment of the county's general creditworthiness includes the following factors:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and a slight operating surplus at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.3% of total governmental fund expenditures and 2.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 6.4% of expenditures and net direct debt that is 33.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Dutchess County, with an estimated population of 295,989, is located in the New York-Newark-Jersey City, NY-NJ-PA MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 114% of the national level and per capita market value of \$101,493. Overall, the county's market value grew by 1.0% over the past year to \$30.0 billion in 2018. The county unemployment rate was 4.2% in 2016.

Located about halfway between Albany and New York City, the county lies between the Hudson River to the west and Connecticut to the east. Metro North railroad provides service to New York City at eight stations throughout the county. Amtrak's Hudson Line also passes through the county, with stations in Poughkeepsie and Rhinecliff, as do Interstate 84 and the Taconic State Parkway. The county's tax base consists of various uses ranging from industrial to residential, across a variety of rural, suburban, and urban settings. With various historical, cultural, and natural attractions, the county also has a strong tourism economy. Dutchess County's population has remained essentially flat since 2010. The largest city by population is Poughkeepsie, which also serves as the county seat and home to Vassar College. Other top employers include HealthQuest, IBM, Global Foundries, Bard College, Mid-Hudson Regional Hospital, and the Culinary Institute of America. Given the access to the job opportunities in the greater New York City metropolitan area, incomes in the county have historically remained above state and national figures.

Management reports there are no large ongoing tax certiorari proceedings and we note the taxpayer base is not concentrated, as the top 10 taxpayers make up less than 5% of its full value. Large taxpayers include utilities, industrial and retail companies, and residential apartment complexes. Central Hudson Gas & Electric is the largest taxpayer at 1.66%. Following declines during the Great Recession, Dutchess' tax base stabilized in 2017 and grew 2.2% in 2018. Current year tax collections have been above 95% for the past five years. Management reports \$2.6 billion of projects under construction including hotels and park spaces. Given the county's location and growing economy, we expect our view of Dutchess' economy to remain very strong.

Strong management

We view the county's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or

monitor all of them on a regular basis.

The county has a history of conservative revenue and expenditure projections, further evidenced by recent performance. It uses trend data of at least three years and maintains additional historical data for more volatile revenue and expenditure items. The county legislature is provided with budget-to-actual results on a quarterly basis at minimum. The county's five-year capital improvement plan is reviewed and updated annually and outlines funding sources and uses. Dutchess maintains an investment policy and reports holdings and earnings at least twice a year.

The county includes its financial policies in its annual budget documents and is compliant with all. These include a formal debt management policy setting rules and limits including limiting general fund debt service costs to no more than 10% of general fund revenue. The county's formal reserve policy currently requires an undesignated general fund balance of 5% to 10% of net general fund revenue. However, county officials noted they are transitioning their policy to maintain reserves at one-to-two months of general fund operating expenditures, which would equate to higher reserve levels. Additionally, the county plans to have a formalized long-term financial plan in place for fiscal 2019.

Strong budgetary performance

Dutchess County's budgetary performance is strong in our opinion. The county had surplus operating results in the general fund of 1.6% of expenditures, and slight surplus results across all governmental funds of 1.2% in fiscal 2016.

Our assessment of the county's budgetary performance adjusts for recurring transfers in and out of the general fund, sales tax collections distributed to underlying municipalities, and capital outlays funded with bond proceeds. Fiscal 2016 results continued the county's trend of strong performance, bolstered by positive variance in sales taxes and little expenditure variance from the budget. Officials credited strong results to better-than-budgeted sales tax revenues as well as reduced expenditures in certain social services program costs. Both of these variances are largely attributable to the improving economy that has decreased costs for safety net programs.

While officials are still working to finalize fiscal 2017 results, initial projections indicate that Dutchess will continue its trend of strong performance. Sales tax revenues remained strong and social service program costs are once again expected to come in lower than budgeted. Although officials report that salary costs for a recently settled labor contract will result in a \$2 million additional expenditure, they expect to realize \$2 million to \$3.8 million in under expenditures in salaries and benefits due to vacancy savings that will offset these costs.

The adopted fiscal 2018 budget increases appropriations by 1.3% in comparison to the fiscal 2017 modified budget. Officials projected sales tax growth of 3.6%, noting that growth across the state has been between 3% and 6%. This, along with projected increases to state and federal revenues, offset reductions to property taxes and appropriated reserves. Considering no major changes to the budget relative to prior years, we do not expect to change our view of the county's budgetary performance over the near term.

Very strong budgetary flexibility

Dutchess County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 19% of operating expenditures, or \$76.0 million.

The county has sustained available fund balance levels above 15%, which we consider very strong, since fiscal 2014. We believe these very strong levels will remain over the near term, especially given management's commitment to

transition its reserve policy to maintain higher reserve levels. Given our expectation of balanced results over the near term, we do not expect our view of the county's flexibility to change in fiscal 2018.

Very strong liquidity

In our opinion, Dutchess County's liquidity is very strong, with total government available cash at 15.3% of total governmental fund expenditures and 2.4x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

Dutchess County's strong external liquidity is based on its issuance of GO and appropriation-backed debt and bond anticipation notes in the past 20 years. The county does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. The majority of investments are in U.S. Treasuries and certificates of deposit, which we consider liquid. Given these factors and our expectation for continued strong operating performance over the next year, we expect liquidity to remain very strong.

Very strong debt and contingent liability profile

In our view, Dutchess County's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.4% of total governmental fund expenditures, and net direct debt is 33.3% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, which is in our view a positive credit factor.

The county anticipates issuing approximately \$10 million to \$15 million annually under its five-year capital plan for normal capital needs. In addition to these plans, it anticipates another \$152 million of bonds for the Dutchess County Justice and Transition Center project. Such bonds will be issued in accordance to the cash flow needs of the project. We anticipate some of the increase in carrying charges will be offset by operational savings upon completion of the center, which is expected by 2022. Given the county's limitations on its debt service carrying costs, we do not anticipate these plans will materially affect our view of the county's debt profile.

Dutchess County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.5% of total governmental fund expenditures in 2016. Of that amount, 4.1% represented required contributions to pension obligations, and 1.4% represented OPEB payments. The county made its full annual required pension contribution in 2016.

The county participates in the New York State and Local Employees' Retirement System (ERS). Despite the option to do so, Dutchess has historically not used the state's pension amortization program and does not expect to do so over the near term; it has paid 100% of contributions over the past three years. The plan fiduciary position of ERS was approximately 94.7% of the total pension liability as of March 31, 2017, based on Governmental Accounting Standards Board Statements 67 and 68 reporting for pension assets and liabilities. We view the plans' actuarial assumptions, including an assumed rate of return of 7.0%, as generally reasonable as they are slightly more conservative than the national average. Contribution rates as a share of payroll remain relatively flat year over year.

In addition, all faculty and administrators of the Dutchess Community College have the option to participate in the New York State Teachers' Retirement System (TRS) or the Teachers Insurance and Annuity Association--College Retirement Equities Fund. Both are cost-sharing, multiemployer retirement systems. TRS maintains a funded ratio above 100%.

OPEBs are funded on a pay-as-you-go basis, as the state does not allow for the prefunding of these liabilities. The county's net OPEB obligation as of Dec. 31, 2016 was \$186.4 million, all of which is unfunded given the county is unable to establish an OPEB trust under New York law.

Strong institutional framework

The institutional framework score for New York counties is strong.

Outlook

The stable outlook reflects our expectation that Dutchess will continue to maintain balanced operations, ensuring budgetary flexibility stays very strong. The improving local and state economies further stabilize the rating. As such, we do not anticipate raising or lowering the rating during our two-year outlook horizon.

Upside scenario

If the county is able to maintain continued growth in its tax base and support rising incomes at levels commensurate with those of higher-rated peers while managing the additional debt burden associated with the Dutchess County Justice and Transition Center project, all other factors remaining the same, we could raise the rating.

Downside scenario

While we believe it is unlikely, we could lower the rating if sustained operating deficits result in materially deteriorated reserves.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 26, 2018)		
Dutchess Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth, New York		
Dutchess Cnty, New York		
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) service agreement rev rfdg bnds (Dutchess County) ser 2016 due 10/01/2029		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty)		

Ratings Detail (As Of February 26, 2018) (cont.)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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