

# RatingsDirect®

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## Summary:

# Dutchess County, New York; Appropriations; General Obligation

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## Summary:

# Dutchess County, New York; Appropriations; General Obligation

### Credit Profile

US\$50.0 mil GO pub imp (serial) bnds, 2022 series b dtd 03/24/2022 due 03/15/2048

*Long Term Rating* AA+/Stable New

US\$20.2 mil GO pub imp (serial) bnds, 2022 series a dtd 03/24/2022 due 03/15/2042

*Long Term Rating* AA+/Stable New

#### **Dutchess Cnty Wtr & Wastewtr Auth, New York**

Dutchess Cnty, New York

Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP

*Long Term Rating* AA/Stable Affirmed

## Rating Action

S&P Global Ratings has assigned its 'AA+' long-term rating to Dutchess County, N.Y.'s \$20 million series 2022A public improvement serial bonds and \$50 million series 2022B public improvement serial bonds. At the same time, we have affirmed our 'AA+' rating on the county's general obligation (GO) debt outstanding. We also affirmed our 'AA' rating on the Dutchess County Water and Wastewater Authority's service agreement revenue bonds. The outlook on all ratings is stable.

The county's faith and credit secures the 2022A and 2022B GO bonds as well as the GO bonds outstanding. Series 2022A bond proceeds will fund various capital projects throughout Dutchess County, including building improvements and capital equipment. Series 2022B bond proceeds will be used to fund a portion of the county's Justice and Transportation Center Project.

Securing the debt service on the authority's debt is Dutchess County's obligation under the service agreement to pay debt service through county general fund appropriations. As a result of the risk related to service failure (albeit remote), we rate these obligations one notch lower than the county's general creditworthiness (as reflected in our GO rating).

### Credit overview

The rating and outlook reflect Dutchess County's history of balanced operations and very strong budgetary flexibility and liquidity, supported by the county's robust economy centered on technology, tourism, and local attractions. We understand Dutchess County has performed well throughout the COVID-19 pandemic, with balanced operations in fiscal 2020 and an expected surplus for fiscal 2021 according to unaudited results. Specifically, when the pandemic started, the county took steps to reduce expenses in anticipation of a slowdown in certain revenues. As a result, it was able to reduce fiscal 2020 expenditures by about \$11 million relative to the previous year, maintaining close-to-balanced operations for the year. In addition, in fiscal 2021, management indicates its economically sensitive

revenues bounced back significantly and came in well above budget, which, combined with expense cuts, made by the county and conservative budgeting, helped lead to a sizable unaudited surplus for the year. Furthermore, we believe the county remains well positioned in the current year. As a result, we expect performance will remain strong and reserves will remain very strong.

The rating reflects our opinion of Dutchess County's:

- Large, growing economic base, with participation in the New York-Newark-Jersey City metropolitan statistical area (MSA);
- Strong management conditions, with a range of formalized financial policies and practices, in addition to a strong institutional framework score;
- Balanced financial operations and the maintenance of very strong general fund reserves; and
- Low overall fixed costs primarily due to low overall net debt, despite what we view as a somewhat large other postemployment benefit (OPEB) liability.

### **Environmental, social and governance**

We analyzed the county's environmental risks and determined that they are in line with our view of the sector standard. We view the state's governance regarding the lack of mechanism to prefund OPEB as a weakness for New York local governments, including for Dutchess County even though the county's OPEB costs are below those of most state peers.

## **Stable Outlook**

### **Downside scenario**

Given the county's current reserve levels, which helps support any weakness in overall revenue performance, we do not anticipate a negative rating action. However, if prolonged operating weakness resulted in a material reduction in general fund reserves, we could take a negative rating action.

### **Upside scenario**

We could take a positive rating action if the county's economic metrics were to improve, particularly in the form of increased wealth and income metrics.

## **Credit Opinion**

### **Large, growing economic base, with participation in the New York-Newark-Jersey City MSA**

Dutchess County, with a population of 295,487, is located about halfway between Albany and New York City, between the Hudson River to the west and Connecticut to the east. Various transportation networks provide access throughout the region and to New York City, including the Metro North railroad, Amtrak's Hudson Line, Interstate 84, and the Taconic State Parkway. The county's economy is multifaceted, with industrial, residential, and tourism components given its various historical, cultural, and natural attractions, as well as its lower tax burden than neighboring Westchester County and its favorable proximity to New York City and Albany.

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 MSA, Dutchess County incomes have historically remained above state and national figures.

Management reports that market value is anticipated to rise further, as local employers continue to increase. Management reports that its "Think Dutchess" campaign continues, with ongoing development and redevelopment of older industrial sites into mixed-use residential and retail establishments. We understand current development within the county totals more than \$4.0 billion. Dutchess County reports that it has benefited from outward migration from the urban area around New York City, with a robust real estate market and anticipates growth in assessed and full valuations. We believe that the development underway as well as the county's favorable location will generate economic strength over the next two years.

### **Strong management conditions, with a range of formalized financial policies and practices**

Dutchess County historically uses conservative revenue and expenditure projections, incorporating at least three years of historical information while maintaining additional years related to more volatile revenue and expenditure items. The county legislature receives budget-to-actual results on a quarterly basis and the five-year capital improvement plan is reviewed and updated annually and identifies funding sources and planned projects. Dutchess County 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. A formal debt management policy sets limits such as general fund debt service costs to no more than 10% of general fund revenue. Dutchess County's fund balance policy changed in 2020 and the new policy calls for it to strive to maintain between one and two months of operating expenditures. The county has identified avenues for spending down its reserves for various purposes if its fund balance exceeds that goal.

### **Balanced financial operations and the maintenance of very strong general fund reserves**

Our assessment of the county's budgetary performance includes adjustments for recurring transfers in and out of the general fund, sales tax collections distributed to underlying municipalities, and capital costs funded with bond proceeds. Operating revenue consists of sales tax collections (44%), grants/state aid (about 25%), and property taxes (22%).

In fiscal 2020, Dutchess County's revenues underperformed budget by \$16 million primarily due to the onset of the COVID-19 pandemic, with sales-and-use taxes in particular coming in \$12 million below budget. However, the county also realized significant expense savings due to reduced economic activity, such that total general fund expenses came in \$19 million below budget. As a result, Dutchess County ended the year with just a slight drawdown of \$1.6 million and the maintenance of very strong available general fund reserves, equal to \$73.8 million, or what we view as a very strong 17.3% of operating expenses.

For the \$468.7 million 2021 budget, management reduced its overall budget by 3.9%. County management indicates the fiscal 2021 budget was built with very conservative budget assumptions given the pandemic. The appropriated fund balance was \$11.4 million, down from fiscal 2020's appropriation of \$12.7 million. The county's tax rate decreased by 9 cents for the year and sales tax assumptions were conservative, with sales tax revenues expected to decrease by

\$6.1 million due to the pandemic. Dutchess County also lowered other economically sensitive revenues for the year, including hotel/motel taxes and other departmental revenue. To offset the ongoing loss in revenue, management reduced expenses through ongoing salary and benefits savings from the previous year's retirement incentive, resulting in the elimination of 96 positions, in anticipation of reduced revenues. However, in actuality, the county saw a significant rebound in sales taxes and other economically sensitive revenues. Sales taxes in particular came in an estimated \$40 million above budget according to unaudited results, which management attributes to a range of factors including a large uptick in online internet sales being taxed. In addition, the county saw \$7 million-\$10 million in expense savings. As a result, Dutchess County expects a very large surplus for the year. We understand management expects to use a portion of this surplus to fund a range of small capital projects in addition to paying off certain debts early but that available general fund reserves will also grow significantly.

We note that in addition to the strong operating result for fiscal 2021, the county was allocated to receive \$57 million in additional federal funding. Dutchess County did not include any pandemic-related federal aid as part of its 2022 budget.

The budget for fiscal 2022 totals \$498.5 million, representing a 6.3% increase from the previous year. The tax rate decreased by 32 cents to \$2.85 per \$100 of AV, resulting in a reduction to the property tax levy of \$5.5 million, while sales tax revenues are expected to increase by \$28.2 million given continued economic strength. Dutchess County used \$4.3 million of reserves in the budget, which is well below historical levels. For fiscal 2022, management anticipates ending the year with balanced operations and as such, we anticipate the county will maintain adequate-to-strong budgetary performance.

### **Low overall net debt, with manageable additional capital needs**

Over the course of the next two years, the county anticipates issuing about \$15 million-\$20 million annually to fund its regular capital improvement projects, including potentially \$20 million to complete the ongoing construction of the new Dutchess County Justice and Transition Center Project. We anticipate that debt service carrying charges could incrementally increase as the bonds are issued for the justice center. We also expect the water and wastewater authority to issue modest debt in the near term to fund matching amounts that future grant revenue does not cover. However, given Dutchess County's limitations on debt service carrying costs as outlined in the county's debt management policy, we do not anticipate these plans materially affecting our view of the debt profile.

### **Pension and OPEB**

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Dutchess County, given our opinion of the county's current strong plan funding status and limited escalating cost trajectory risk.
- However, significant OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility, as well as medical cost and demographic trends, is likely to lead to escalating costs and could create budgetary pressure.

As of Dec. 31, 2020, Dutchess County participates in the following plans:

- Employee Retirement System (ERS): 86.4% funded, with a proportional share of the net pension liability equal to \$126.1 million.
- A single-employer, defined-benefit health care plan that is 0% funded and maintains an unfunded liability of \$461.9 million.

OPEBs are provided through the Dutchess County Retiree Medical program, a single-employer, defined-benefit health care plan administered by the New York ERS. Retiree contributions to the health care plan vary depending on length of service; otherwise, the county's annual contribution is funded on a pay-as-you-go basis. We note that 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.

Dutchess County, N.Y.--Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	105			
Market value per capita (\$)	119,358			
Population (no.)		293,283	295,487	293,439
County unemployment rate(%)		7.7		
Market value (\$000)	35,005,740	32,247,945		
Ten largest taxpayers % of taxable value	6.6			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(0.4)	0.5	0.3
Total governmental fund result % of expenditures		1.4	1.7	3.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		17.3	16.5	16.7
Total available reserves (\$000)		73,815	72,697	70,727
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		14	15	19
Total government cash % of governmental fund debt service		276	330	418
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very strong debt and long-term liabilities</b>				
Debt service % of governmental fund expenditures		5.0	4.6	4.4
Net direct debt % of governmental fund revenue	57			
Overall net debt % of market value	1.8			
Direct debt 10-year amortization (%)	49			
Required pension contribution % of governmental fund expenditures		4.0		
OPEB actual contribution % of governmental fund expenditures		1.9		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 16, 2022)		
Dutchess Cnty pub imp rfdg (serial) bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Dutchess Cnty pub imp serial bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Dutchess Cnty pub imp serial bnds		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Dutchess Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Dutchess Cnty Wtr &amp; Wastewtr Auth, New York</b>		
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>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) APPROP (MBIA) (National)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) GO		
<i>Long Term Rating</i>	AA/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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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