S&P Global Ratings

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Summary:

Dutchess County, New York; General Obligation

Primary Credit Analyst:
Danielle L Leonardis, New York (1) 212-438-2053; danielle.leonardis@spglobal.com

Secondary Contact:
Carolyn McLean, New York (1) 212-438-2383; carolyn.mclean@spglobal.com

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Summary:

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Credit Profile		
US$20.0 mil pub imp serial bnds ser 2019B due 03/01/2048		
Long Term Rating	AA+/Stable	New
US$15.0 mil pub imp serial bnds ser 2019A due 03/01/2039		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Dutchess County, N.Y.'s series 2019A and B public improvement general obligation (GO) bonds. The outlook is stable.

The county's faith and credit secures the GO debt outstanding 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.

Proceeds from the series A bonds will be used to finance various county capital projects while proceeds from the series B bonds will provide financing for the continuation of the county justice and transition center project.

Despite the county's average wealth and income indicators, it derives its economic strength from its close proximity to New York City and ongoing development, particularly as a result of its location along the Hudson River. The management team has undertaken efforts to engage in long-term, albeit informal, financial planning that we believe will support maintenance of the county's strong fund balance levels. Over the long term, the county could face challenges containing its long-term liability costs associated with retiree benefits, as New York State prohibits most local governments from prefunding these benefits.

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 methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 15.9% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 31.8% of total governmental fund revenue, as well as low overall net debt at less than 3.0% 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 295,000, is located in the New York-Newark-Jersey City MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 110% of the national level and per capita market value of $101,834. Overall, the county's market value grew by 1% over the past year to $30 billion in 2018. The county unemployment rate was 4.3% in 2017.

Situated equidistant from Albany and New York City, the county is located 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 by 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 property tax burden than 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 metropolitan area, incomes in the county have historically remained above state and national figures.

Management reports that despite market value growth, no new material tax certiorari grievances were filed in 2018, but some are awaiting settlement from previous years. Recent information indicates that about $2.9 billion in construction is underway with an additional $1.1 billion in the planning or development phase. Redevelopment of older industrial sites is also ongoing, with mixed-use residential and retail establishments. Furthermore, several new hotels are under construction as developers take advantage of the scenic aspects of the county along the Hudson River. We believe that the development underway and the county's favorable location will drive its economic strength over the next two years.

Strong management

We view the county's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The county historically utilizes 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 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 of no more than 10% of general fund revenue.

The county transitioned its reserve policy to maintain reserves at one to two months of general fund operating expenditures. Furthermore, beginning in 2020, management anticipates broadening the scope of its capital improvement plan to include information on past projects and funding sources at the request of the legislature.

Strong budgetary performance

Dutchess County's budgetary performance is strong, in our opinion. The county had slight deficit operating results in the general fund of 0.5% of expenditures but a slight surplus result across all governmental funds of 0.6% in fiscal 2017.

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 (42%), state aid (about 26%), and property taxes (24%). Sales tax receipts performed well in fiscal 2017, increasing 2.4%. Management has annually incrementally lowered property taxes in conjunction with tax base growth.

Audited results for fiscal 2017 showed a departure from prior years, ending with a modest operating deficit of $2.2 million (after adjustments), or 0.5% of expenditures. Management reports that some expenditures for mental health and other social services trended higher than budget, while the county did not receive a portion of anticipated revenue, particularly related to reimbursement for those services. Furthermore, the county paid about $2 million in capital costs from its fund balance rather than issue debt to cover the expenditures.

Year-to-date results for fiscal 2018 indicate the county will likely end with break-even results. Sales tax revenue is trending 8.4% higher than the prior year with collections $9.4 million over budget. Dutchess also received $1.2 million in casino revenue that it did not budget. Finally, as interest rates have trended higher in 2018, investment income is substantially over budgeted amounts. Revenue trending in excess of budget is positive, as the county increased its fund balance appropriation to $19.3 million from $15.0 million to cover retroactive pay amounts to labor unions.

The adopted fiscal 2019 budget increases appropriations by about 3% in comparison with the fiscal 2018 modified budget. Officials projected sales tax growth of 2%, which does not include growth associated with taxing Internet sales should the state pass legislation during its 2019 session. Furthermore, the county excluded revenue and expenditures associated with the Raise the Age mandate requiring the separation of juveniles below the age of 18 from the adult jail population. The budget will require an amendment once the state approves the county's implementation plan in early 2019. Outside of that change, the budget includes no significant deviations from prior years.

Very strong budgetary flexibility

Dutchess County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 18% of operating expenditures, or $71.8 million.

Fund balance levels remain very strong, despite the decline in fiscal 2017. With break-even results projected for fiscal 2018, we expect the county's flexibility to remain very strong in the near term. The fiscal 2019 budget includes a fund balance appropriation of $19.4 million, but given the management team's conservative budgeting practices, coupled with maintenance of higher reserve levels relative to its revised policy, we believe flexibility will remain very strong over the two-year outlook period.

Very strong liquidity

In our opinion, Dutchess County's liquidity is very strong, with total government available cash at 15.9% of total governmental fund expenditures and 3.3x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary based on its issuance of GO and appropriation-backed debt and bond anticipation notes in the past 20 years. The county has no contingent liquidity risks from financial instruments with payment provisions that change upon 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 4.8% of total governmental fund expenditures, and net direct debt is 31.8% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor. The county has about $168 million in total debt outstanding following this issuance. Over the course of the next two years, the county anticipates issuing $10 million to $15 million annually to fund its regular capital improvement projects while also issuing $40 million annually for ongoing construction of the new Dutchess County Justice and Transition Center project with completion scheduled for 2023. Additional debt for the jail will be issued in accordance with the cash flow needs of the project. We anticipate that debt service carrying charges may 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. Given the county's limitations on its debt service carrying costs as outlined in its debt management policy, we do not anticipate these plans will materially affect our view of the county's debt profile.

Dutchess County's required pension and actual other postemployment benefits (OPEB) contributions totaled 6.1% of total governmental fund expenditures in 2017, with 4.1% representing required contributions to pension obligations and 2.0% representing OPEB payments. The county made its full annual required pension contribution.

The county participates in the New York State and Local Employees' Retirement System (ERS). Dutchess has historically refrained from participating in the state's pension amortization program and 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 Statement Nos. 67 and 68 reporting for pension assets and liabilities. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable given that the rate is slightly more conservative than the national average. Contribution rates as a share of payroll remain relatively flat year over year. As of Dec. 31, 2017, the county's net pension liability as a share of the ERS was $43.2 million.

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, multiple-employer retirement systems. TRS maintains a funded ratio above 100%.

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 upon length of service, and otherwise the county's annual contribution is funded on a pay-as-you-go basis. The county's net OPEB obligation as of Dec. 31, 2017 was $207.4 million, all of which is unfunded given that the county is unable to establish an OPEB trust under New York law.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects our view that the county's participation in the New York City MSA will support its ongoing economic trends and drive operating revenue to cover recurring expenditures over the long term. Furthermore, we believe the strong management team will continue evaluating methods to curtail growth in its OPEB liability despite its inability to prefund benefits under state law. Consequently, we do not anticipate changing the rating during our two-year outlook horizon.

Upside scenario

All else equal, we could raise the rating if the county's economic growth translates to improved wealth and income metrics consistent with those of higher-rated peers while the county manages growth in fixed costs relative to debt service and OPEB.

Downside scenario

We could lower the rating in the unlikely event that sustained operating deficits result in materially deteriorated reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.