

RatingsDirect®

Summary:

Dutchess County, New York; Appropriations; General Obligation

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Credit Profile

US\$22.82 mil pub imp serial bnds ser 2023A dtd 04/05/2023 due 04/01/2043

Long Term Rating AA+/Stable New

US\$18.6 mil pub imp serial bnds ser 2023B dtd 04/05/2023 due 04/01/2048

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

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Dutchess County, N.Y.'s \$22.8 million series 2023A public improvement serial bonds and \$18.6 million series 2023B public improvement serial bonds.
- At the same time, we 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 is stable.

Security

The county's faith and credit pledge secures the bonds. Series 2023A bond proceeds will fund various capital projects throughout the county, including the Dutchess Urban Trail, highway and bridge improvements, and capital equipment. Series 2022B bond proceeds will complete financing for the county's Justice and Transition 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 appropriation risk and 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 reflects our view of Dutchess County's history of solid financial operations and growing reserve levels, further supported by a broad local economic profile centered on technology, tourism and higher education. The country experienced a strong surplus in fiscal 2021 as sales tax revenues recovered substantially, leading to a jump in unassigned general fund balance. The county subsequently utilized excess reserves to pay off debt and for capital pay-go in accordance with its formal fund balance policy. Based on preliminary estimates, management expects fiscal 2022 will also end with balanced results and partial replenishment of fund balance. Finally, the county's debt profile

continues to be manageable with regular ongoing capital needs.

The rating further reflects the county's:

- Large and growing economic base, with participation in the New York-Newark-Jersey City metropolitan statistical area (MSA);
- Well-embedded range of formalized financial policies and practices, coupled with a strong institutional framework score;
- Solid financial operations leading to increased reserve levels despite planned drawdowns; and
- Manageable debt profile.

Environmental, social, and governance

We assessed the county's environmental, social and governance risks and determined that they are neutral in our credit rating analysis. We view the state's governance regarding the lack of mechanism to prefund other postemployment benefits (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.

Outlook

The stable outlook reflects the county's solid financial operations and robust reserve levels that we expect will be maintained over the outlook period.

Downside scenario

We could consider a negative rating action if financial operations became structurally imbalanced, resulting in a material reduction in reserve levels.

Upside scenario

We could consider a positive rating action if the county's economic metrics were to improve to levels comparable with 'AAA' peers, particularly increased wealth and income metrics.

Credit Opinion

Large and growing economic base with access to New York City MSA

Dutchess County 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 and includes industrial, residential, higher education and tourism components. The largest city by population is Poughkeepsie, which also serves as the county seat and home to Vassar College. Other top employers include Nuvance, IBM, and Onsemi as well as various higher education providers including Bard College, Marist College 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 two of its major employers, IMB and Onsemi, continue to invest in and expand on their operations within the county. Dutchess County has also benefitted from outward migration from New York City over the past few years, contributing to a robust real estate market and growth in valuations that has remained stable despite the market cooling from pandemic-related highs. Approximately 8,700 new housing units are in various stages of development with about 3,000 in construction as of last year. We anticipate that ongoing development coupled with the county's favorable location will continue to support economic strength over the next two years.

Strong financial management environment with a range of formalized 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.

The institutional framework score for New York municipalities is strong.

Strong financial results in most recent years leading to robust fund balance levels

For analytical consistency, we adjusted the county's budgetary performance to account for recurring transfers in and out of the general fund, sales tax collections distributed to underlying municipalities, and capital costs funded with bond proceeds. Sales tax is the county's primary revenue source at about 48% of revenue followed by grants/state aid (about 24%) and property taxes (20%).

The county ended fiscal 2021 with a significantly larger surplus than anticipated about \$58 million, primarily driven by a substantial rebound in sales tax and other economically sensitive revenues. This surplus led to about \$119.5 million in unassigned general fund reserve balance at the end of the fiscal year, which the county subsequently utilized a portion of in fiscal 2022 in a planned spend down to pay off debt and for pay-go capital in accordance with its fund balance policy. Based on preliminary estimates, management anticipates sales tax in fiscal 2022 was not as impacted by the tax exemption for clothing and footwear as initially expected, therefore outperforming the budget, and that it will have between \$14 million-\$20 million in fund balance replenishment. The fiscal 2023 budget includes a slight bump in sales tax revenue to be more in line with previous year collections, as well as a one-time \$25 million appropriation to cover improvements at the Dutchess County stadium that management expects could be replenished with a new revenue source that could begin in fiscal 2024 depending on negotiation timelines. We do not expect the county's available fund balance levels to fall below 15% despite the planned drawdowns based on its history of strong operations and management's expectations for the current fiscal year.

Manageable debt profile with regular ongoing capital needs

After this issuance, Dutchess County will have approximately \$317 million in net direct debt outstanding. 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. While the county has about \$22 million remaining in authorization for the Dutchess County Justice and Transition Center Project, we understand this is intended to be the final borrowing to complete financing for the justice center as the building is substantially complete, with plans to become operational by this summer. While the county is discussing other potential projects, such as a two-way radio system and youth center, we do not anticipate these plans will materially affect our view of its 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. We note there was significant funding progress on the pension liability as the plan achieved full funding, and the net pension liability decreased to \$472,000 in fiscal 2021 from \$126.1 million in fiscal 2020. However, significant OPEB liabilities are funded on a pay-as-you-go basis, which is likely to lead to escalating costs in future fiscal years. The county is unable to establish an OPEB trust under New York law.

Dutchess County participates in the following plans:

- Employee Retirement System (ERS): 100% funded, with a proportional share of the net pension liability equal to \$472,425.
- A single-employer, defined-benefit health care plan that is 0% funded and maintains an unfunded liability of \$571.6 million.

Dutchess County, New York Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	116	113	110	110
Market value per capita (\$)	122,160	112,820	109,955	104,310
Population		293,965	293,283	295,487
County unemployment rate(%)		4.4		
Market value (\$000)	35,910,768	33,165,258	32,247,945	30,822,124
Ten largest taxpayers % of taxable value	4.4			
Strong budgetary performance				
Operating fund result % of expenditures		12.7	(0.4)	0.5
Total governmental fund result % of expenditures		11.4	1.4	1.7
Very strong budgetary flexibility				
Available reserves % of operating expenditures		30.1	17.3	16.5
Total available reserves (\$000)		130,207	73,815	72,697
Very strong liquidity				
Total government cash % of governmental fund expenditures		30	14	15

Dutchess County, New York Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Total government cash % of governmental fund debt service		467	276	330
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.4	5.0	4.6
Net direct debt % of governmental fund revenue	56			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	51			
Required pension contribution % of governmental fund expenditures		4.2		
OPEB actual contribution % of governmental fund expenditures		2.2		

Strong institutional framework

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

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 February 28, 2023)

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
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>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		

Ratings Detail (As Of February 28, 2023) (cont.)

<i>Long Term Rating</i>	AA/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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