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Ratings

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Summary:
Dutchess County, New York; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$37.73 mil pub imp (serial) bnds ser 2020 dtd 03/25/2020 due 03/15/2040		
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

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Dutchess County, N.Y.'s series 2020 $37.7 million public improvement general obligation (GO) bonds. At the same time, we also affirmed our 'AA' rating on the Dutchess County Water and Wastewater Authority's service agreement revenue bonds. The outlook is stable for all issues.

Security and use of proceeds

The county's faith and credit, including the statutory authorization to levy ad valorem taxes on all real property in the county, secures the 2020 GO bonds as well as the GO bonds outstanding, subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on local governments' ability to annually increase the real property tax levy. Bond proceeds will to fund various capital projects throughout the county.

Securing the debt service on the service agreement revenue bonds is the county's obligation under the service agreement to pay debt service through county general fund appropriations. The obligation is unconditional, unless the authority fails to provide potable water in excess of 25% of the service area for 90 consecutive days. 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 the GO rating). We view these bonds as having a strong relationship to the obligor given that they provide funding for projects we believe are significantly important to the obligor. We see no unusual political, timing, or administrative risk related to the debt payment. The authority has agreed, pursuant to the service agreement, to raise sufficient money to pay operating expenses through the fixing, charging, and collection of water rates. If this revenue is insufficient to meet operating expenditures, the county is obligated to fund the deficiency, pursuant to a water service agreement, with the revenue appropriated from the general fund, if necessary. A debt service reserve (DSR) is available for the benefit of bondholders equal to the lesser of 10% of the par amount of bonds outstanding, 125% of the average annual debt service, or maximum annual debt service (MADS). The debt service reserve fund is currently overfunded based on the amount of debt outstanding and no additional contribution will be made in conjunction with the issuance of series 2019 bonds.

Credit overview

Despite the county's average wealth and income indicators, it derives its economic strength from its 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 liability costs associated with retiree benefits, as New York State prohibits most local governments from prefunding these benefits.

The rating reflects our view of the county's:

- 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 balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.5% of total governmental fund expenditures and 4.2x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 4.4% of expenditures and net direct debt that is 42.4% 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.

Strong economy

We consider the county's economy strong. Dutchess County, with a population of 293,439, is in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 104.4% of the national level and per capita market value of $109,897. Overall, market value grew 4.6% over the past year to $32.2 billion in 2020. The county unemployment rate was 3.7% in 2018.

Situated about halfway between Albany and New York City, the county is 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 via 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 and its favorable proximity to New York City and Albany. The county's 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 its access to the job opportunities in the greater New York City MSA, the county's incomes have historically remained above state and national figures.

Management reports that market value growth is anticipated to continue, as many of the county's larger employers are expanding. Furthermore, through various outreach programs, specifically "Think Dutchess," the county has added 11 new businesses in East Fishkill, at the IBM campus. Continuous development and 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 county's scenic aspects along the Hudson River. We believe given the development underway as well as the county's favorable location will generate 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 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 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 (CIP) 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 of them. A formal debt management policy sets limits such as 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%-10% of net general fund revenue. However, it is transitioning its policy to maintain reserves at one-to-two months of general fund operating expenditures, which would equate to higher reserve levels. In addition, beginning in fiscal 2019, management broadened the scope of its capital improvement program 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 balanced operating results in the general fund of 0.3% of expenditures, and surplus results across all governmental funds of 3.7% in fiscal 2018. General fund operating results of the county have been stable over the past three years.

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 (24%). Sales tax receipts performed well in fiscal 2018, increasing $7.5 million over budget levels. Total revenue for the county was $11.1 million over budget, with a majority being sales tax, but additional revenues such as from casinos, came in strong. Through its conservative budgeting practices and close monitoring of the budget, the county realized savings across the board on the expense side. Savings are occurring with health insurance, benefits, and social services offered to residents.

The county's 2019 adopted budget of $471.4 million was 4.7% higher than in 2018. It once again lowered its tax rate, and overall property tax revenue declined. The county budgeted for sales tax growth of 4.9%, while also experiencing a 3.3% increase in salaries and fringe benefits for employees. Currently, it anticipates at least break-even results, as sales tax is coming in above budgeted levels.

The 2020 budget at $482.0 million is 2.5% higher than in 2019. The county doubled its tax rate reduction of $0.18, with overall property tax revenue falling about $1 million. For other revenues, the county has budgeted for a 5.8% increase in sales tax or $11.5 million growth. With lower health care costs, salaries and fringe-benefit growth is minimal. One area of pressure that we continue to monitor involves growing state mandates and their possible effect on the county's current and future budgets. In the near term, we anticipate the county will maintain its strong budgetary performance, through conservative budgeting. However, pressure may arise through additional unfunded state mandates or an economic slowdown that would affect its large revenue source sales tax.

Very strong budgetary flexibility

Dutchess County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 17% of operating expenditures, or $70.7 million.

The county chose to reclassify some of its unassigned fund balance to restricted reserves, which we do not view as available. Despite the reclassification, it continues to maintain what we view as a very strong available fund balances. With break-even results projected for fiscal 2019, we expect the county's flexibility to remain very strong in the near term. The fiscal 2020 budget includes a fund balance appropriation of $18.1 million, but given the management team's conservative budgeting practices, coupled with its commitment to transition its reserve policy to maintain higher levels, we believe flexibility will remain very strong over the two-year outlook period. However, we continue to monitor state mandates and its effects on the county's budget.

Very strong liquidity

In our opinion, Dutchess County's liquidity is very strong, with total government available cash at 18.5% of total governmental fund expenditures and 4.2x governmental debt service in 2018. 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. Treasury bonds 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 4.4% of total governmental fund expenditures, and net direct debt is 42.4% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, which is, in our view, a positive credit factor.

Over the course of the next two years, the county anticipates issuing $30 million to $35 million annually to fund its regular capital improvement projects while also issuing approximately $100 million (likely in three installments) for ongoing construction of the new Dutchess County Justice and Transition Center project with completion scheduled for 2022. 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.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefits (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 that 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.

Dutchess County participates in:

- Employee Retirement System (ERS): 98.24% funded, with a proportional share of the net pension liability equal to $14.6 million, additionally;
- All faculty and administrators of the Dutchess Community College have the option to participate in the Teachers' Retirement System (TRS): 101.53% funded, with a proportional share of the net pension assets equal to $707,829.

Dutchess County's combined required pension and actual OPEB contributions totaled 5.8% of total governmental fund expenditures in 2018. Of that amount, 4.0% represented required contributions to pension obligations, and 1.7% represented OPEB payments. The county made its full annual required pension contribution in 2018.

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. Its net OPEB liability as of Dec. 31, 2018, was $410.4 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 for New York counties is strong.

Outlook

The stable outlook reflects our view that Dutchess County's access to the New York City MSA will support its ongoing economic trends and generate 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 economic growth translates into 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 other costs.

Downside scenario

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

Related Research

- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 14, 2020)		
Dutchess Cnty pub imp rfdg (serial) bnds		
Long Term Rating	AA+/Stable	Affirmed
Dutchess Cnty pub imp serial bnds		
Long Term Rating	AA+/Stable	Affirmed
Dutchess Cnty pub imp serial bnds		
Long Term Rating	AA+/Stable	Affirmed
Dutchess Cnty GO		
Long Term Rating	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		
Long Term Rating	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP		
Long Term Rating	AA/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) APPROP (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Dutchess Cnty Wtr & Wastewtr Auth (Dutchess Cnty) GO		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.