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Summary:

Nassau County Sewer & Storm Water Finance Authority, New York; Miscellaneous Tax; Special Assessments

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Credit Profile		
US$160.885 mil sys rev bnds ser 2014 A due 10/01/2034		
Long Term Rating	AAA/Stable	New
US$1.455 mil sys rev bnds ser 2014 B due 10/01/2016		
Long Term Rating	AAA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating, and stable outlook, to Nassau County Sewer and Storm Water Finance Authority's (SSWFA, or the authority) series 2014A tax-exempt system revenue bonds and series 2014B taxable system revenue bonds.

Our rating is based on the authority's status as a state-created entity whose obligation to pay is separate from the county (under statute and the Financing Agreement) and separate from the operations of the county's sewer and storm water utility. The rating reflects the strength of property tax assessments. We believe that the implementation of system charges could potentially weaken this separation by introducing sewer and storm water system operations to our view of the issuer.

The rating additionally reflects our view of the following credit factors:

- The strength of the pledged revenue stream, which currently primarily consists of property tax assessments on properties located within the county's sewer and storm water district;
- A flow of funds that requires tax collectors to remit district property tax collections directly to the trustee for payment of authority debt service before any other costs, including sewer district operating expenses, are paid;
- Bond provisions that include a strong additional bonds test (ABT) equivalent to 2.0x maximum annual debt service (MADS), limited statutory authorization to issue additional debt, and a county covenant to maintain at least 2.0x debt service coverage from assessments and charges, and to guarantee 100% collections;
- Very strong MADS coverage from pledged revenue of more than 6.0x; and
- Nassau County's very strong economy, with very strong wealth and income levels, located just outside of New York City.

Officials plan to use bond proceeds to refund all outstanding maturities of the authority's series 2004B and 2008A bonds. Upon the successful closing of the series 2014A and 2014B bonds, the ratings on the 2004B and 2008A bonds are subject to discontinuation. The series 2014A bonds will also provide approximately $38 million of new money to fund sewer capital projects, the bulk of which is allocated to various improvements to wastewater facilities and buildings; equipment replacement; and treatment, buildings, and equipment modifications. Officials report that the sewer system is in compliance with all state and federal regulatory requirements. Certain projects funded with this bond issue will ensure that continues.

The authority is issuing the series 2014 bonds pursuant to a general revenue bond resolution and financing agreement dated Oct. 1, 2014. The bonds are special obligations of the authority and payable solely from the revenues, funds, and assets pledged under the resolution as security for payment. Neither the state nor county is liable for the authority's bonds. Pledged revenues consist almost entirely of property taxes levied for sewer assessments, but by definition also include sewer charges, if implemented. The county has covenanted, pursuant to the financing agreement, that revenues from assessments and charges shall not fall below 2.0x debt service on the outstanding bonds.

The authority was created by the state legislature in 2003 under the Public Authorities Law with the specific and limited objective of refinancing outstanding sewer and storm water debt issued by or on behalf of Nassau County and financing future sewer and storm water projects. SSWFA is also a covered organization under the statute governing the Nassau County Interim Finance Authority. The authority may not hire employees, and all sewer and storm water-related assets are being transferred back to the county on the effective date of the financing agreement. The county (not the authority) ensures the provision of sewerage and storm water services and according to the legislative intent, nothing in the statute alters or modifies the county's responsibility to provide sewerage and storm water services.

Tax receivers in each tax-collecting jurisdiction (two cities and three towns) collect and distribute the taxes directly to the trustee. The sewer and storm water assessments appear as separate line items on property tax bills and are required to be held in a segregated account while in the possession of the tax collectors. If any assessments remain unpaid at the time required for their transfer to the authority, the county has directed the tax collectors to pay to the trustee any other amounts that would otherwise be payable to the county up to the amount of any unpaid assessments, thereby guaranteeing 100% collections. Pursuant to the resolution and the timing of property tax billing and collections, debt service requirements (principal and interest due Oct. 1 and interest due April 1) are fully funded at least six months in advance of payment.

In our view, the pledged revenue stream and the flow of funds are particular credit strengths for the authority's 2014 revenue bonds since debt service must be paid before any authority, sewer district, or county operating expenses. The flow of funds pursuant to the bond resolution directs the trustee to use pledged revenues first to meet debt service and sinking fund requirements coming due within the next six months. Funds are then directed in the following order: to the debt service reserve fund (if any), to pay subordinated debt (if any), to pay authority operating expenditures (which are relatively minimal), as required to any additional funds created, and then to the county. The county uses the sewer assessments to pay both sewer district operating costs and debt service on county general obligation (GO) bonds issued for sewer purposes.

The legal covenants include an ABT requiring 2.0x coverage of current and proposed debt service based on historical revenue (in any 12 consecutive months within the past 18 months) and a 2.0x rate covenant from recurring revenue. In addition, the authority is statutorily limited in its ability to issue debt to $350 million, of which $128 million in borrowing capacity remains. In our opinion, this effectively limits the county's ability to issue bonds to the ABT level.

There is no debt service reserve, but the timing of collections allows for debt service payments to be funded six months in advance. The resolution allows for the issuance of variable-rate debt, if it is covered by a credit facility providing for both principal and interest payments. Subordinate-lien bonds may be issued, but are also subject to the $350 million maximum authorization.

Sewer assessments in 2013 totaled $117.3 million and provide what we consider very strong MADS coverage of 6.53x. The debt service schedule is declining, with MADS of $17.95 million occurring in 2016, and debt service decreasing to only $2.76 million at final maturity in 2034.

The county executive's 2015 budget includes an increase in the sewer assessment to $123.3 million, which is maintained for the duration of the county's four-year plan, to cover increased sewer district operating expenditures. Assuming the levy increase, projected MADS coverage improves to 6.87x. Given these very strong coverage levels and the authority's limited capacity to issue additional debt, we expect coverage levels to remain very strong, despite, in our view, the county's historical reluctance to increase its overall property tax levy. We do not consider statutory taxing limits binding with respect to the authority's debt -- the county is at only 8.25% of its constitutional taxing limit (which only applies to countywide storm water assessments) as of fiscal 2013, and the state's levy cap (the lesser of 2% or the rate of inflation, subject to certain exceptions) applies to the county's total property tax levy, which officials may allocate across funds as they see fit, as evidenced by the proposed sewer district levy increase of 5.1% in 2015. Should the county decide to change to a rate-based revenue structure, the sewer charges would also be pledged for repayment under the resolution. We understand there are no current plans to do this. If the authority were to alter its revenue profile such that the current bonds were significantly dependent on user charges for service, the rating could change to reflect this operational risk.

We understand that additional authority debt is not contemplated at this time, but would expect coverage to remain in excess of 4.0x, assuming level debt service over a 20-year amortization period (consistent with the useful life of the financed assets).

Nassau County (population: 1.34 million) is adjacent to New York City and west of Suffolk County on Long Island. Storm water services are provided countywide, while approximately 336,000 of the county's 415,000 parcels receive sewer services from the county, representing approximately 72% of assessed value. Nassau County's total tax base is substantial, with a full market value of $200 billion in 2014, but has decreased more than 20% since 2009 due to a combination of property tax appeals and continued weakness in residential values. Despite these declines, we consider the county's market value per capita strong at $148,427. We believe income levels are very strong, with projected per capita effective buying income at 156% of the national average. County unemployment averaged 5.9% in 2013, below both the state and national rates. There is no tax base concentration, with the 10 leading taxpayers representing 9.6% of assessed value.

Outlook

The stable outlook reflects our opinion of the bond provisions and the flow of funds supporting the authority's debt, which, in our opinion, support its ability to maintain its very strong coverage levels. We therefore do not expect to change the rating during the two-year outlook horizon. However, a substantial dilution in coverage levels by assessments, which would likely require a change to the authority's debt capacity or changes to the legal structure, or a reduction in sewer and storm water assessments, could lead to our lowering the rating. Additionally, if the current authority debt were to be substantially supported by charges for service, the rating could potentially negatively change to reflect the utility's operational risk.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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