STANDARD & POOR'S RATINGS SERVICES
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Summary:

Nassau County, New York; Appropriations; General Obligation; General Obligation Equivalent Security; Joint Criteria; Note

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Credit Profile		
US$273.0 mil go gen imp bnds, rfdg ser 2016A due 01/01/2039		
Long Term Rating	A+/Negative	New
US$120.14 mil go gen imp bnds ser 2016B due 10/01/2030		
Long Term Rating	A+/Negative	New
US$25.3 mil bond antic nts (Federally Taxable) ser 2016A due 12/15/2016		
Short Term Rating	SP-1+	New
Nassau Cnty GO		
Long Term Rating	A+/Negative	Outlook Revised

Rationale

Standard & Poor's Ratings Services revised its outlook to negative from stable and affirmed its 'A+' long-term rating on Nassau County, N.Y.'s general obligation (GO) bonds and its 'A' rating assigned to the Nassau Regional Off-Track Betting Corp.'s 2005 revenue bonds. The outlook change is based on the county's further compromised budgetary flexibility and continued very weak adjusted budgetary performance despite significant efforts to increase recurring revenues while limiting expenditure growth. We also assigned an 'A+' rating and negative outlook to the county's series 2016A refunding GO bonds and 2016B GO bonds. Further, we assigned an 'SP-1+' short-term rating to the county's series 2016A taxable bond anticipation notes (BANs).

The county's faith and credit GO pledge secures the GO bonds and BANs, including the statutory authorization to levy ad valorem taxes on all real property within the county, 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 each year. The 'A' rating assigned to the Nassau Regional Off-Track Betting Corp.'s series 2005 revenue bonds is based on Nassau County's unconditional and irrevocable obligation under the support agreement, which is subject to appropriation to make annual debt service payments on behalf of the corporation directly to the trustee. Due to the limited nature of the county obligation, which does not include a faith and credit GO pledge, nor the authority for the levy of an unlimited ad valorem tax, the series 2005 bonds have been rated one notch below the 'A+' rating on the county's GO debt.

The 'SP-1+' rating reflects our assessment of the county's low market-risk profile, indicating our view that there is a low likelihood that the market liquidity of the obligor's debt would be weaker than that suggested by the 'A+' long-term rating.

Officials plan to use bond proceeds from the 2016A bond series to refund the county's 2008A, 2008C, 2009A, and 2009C bonds for present value savings. There is no extension of maturity and savings are taken largely in the first four years of the maturity schedule. Proceeds from the 2016B series will be used for various capital improvements and equipment purchases. Finally, BAN proceeds will be used for capital improvements to the county's sewer system. We understand that the county plans to issue the BANs as taxable obligations based on its consideration of a potential public-private partnership for the sewer system.

The 'A+' long-term rating and negative outlook reflect our opinion of the county's deteriorated reserve position based on 2014 audited results, relative to the previous audited year, as well as our view of the ongoing challenges in rebuilding the available fund balance. Despite an overall economic recovery since the Great Recession, the county has been unsuccessful in building available reserves to achieve greater budgetary flexibility. We believe that despite significant budgetary adjustments, including an increase of property taxes in the 2015 budget, a rise in fee-based revenues and reductions in staff, consistent growth in reserves to higher and sustainable levels remains tenuous. Available fund balance at audited fiscal 2014 year-end in the general and police district funds dropped to a negative $762,000, or just under 0% of expenditures, from $23 million, or 0.8% of combined expenditures in 2013, a level we view as very weak. Despite a budgetary basis surplus for fiscal 2014, results (adjusted according to generally accepted accounting principles, or GAAP) show a combined general fund, police fund, and Nassau County Interim Finance Authority (NIFA) Fund operating deficit of $104.82 million, or a negative 3.7% of adjusted general fund expenditures, which we also view as very weak. For audited 2014, the county reported a negative operating result of 5% across all governmental funds or a negative $159.07 million. These results include adjustments for amortized pension contributions, NIFA debt service payments, recurring transfers recorded below the line and the removal of expenditures related to capital projects, tax certiorari and judgment settlements that were paid from bond proceeds. Although officials are not projecting to draw down on reserves further in fiscal 2015 based on budgetary results and while the 2016 budget does not include an appropriation of reserves, we believe that the county's available fund balance will likely remain very weak.

The county estimates that 2015 ended with a $3.4 million budgetary-based surplus despite a $42 million negative variance in sales tax revenue receipts compared to budget. Further pressuring 2015 was the repeal of the speed camera initiative, coupled with a shortfall in red-light camera and ticket revenues, which resulted in a $34.7 million loss compared to budget. These negative results were offset by lower-than-budgeted salary and fringe benefit expenditures, a Medicaid local share cap reduction, and debt service savings relative to budget. While GAAP-basis estimates are unavailable at this time, we believe that the county's overall performance will remain what we consider very weak following the inclusion of pension amortization, which totaled nearly $61 million in 2015 across all funds and after factoring in NIFA adjustments for noncapital-related expenditures funded from bond proceeds.

We consider NIFA's continued oversight of the county a credit positive. The county must submit to NIFA a quarterly variance report that details the actual performance of identified risks. If NIFA determines that the county has failed to meet the reporting requirements, it may limit the approval of or reject expenditure requests to ensure compliance with the county's approved multiyear financial plan. The 2016 budget, which conforms to the 2016-2019 Multi-Year Financial Plan as modified by NIFA, totals $2.92 billion, excluding interdepartmental transfers, and is balanced according to the budgetary basis of accounting. The budget includes an increase of $46 million in recurring fee revenues as well as the elimination of bonding for termination costs. Further, the budget includes what we consider to be a more conservative estimate of sales tax growth of 1.5% over fiscal 2015's projected results.

The county's operating performance has been historically offset, in our view, by the county's bonding to finance noncapital-related costs, including tax certiorari refunds, termination pay, and legal settlements. We believe, however, that some of the county's budgetary pressures related to future debt service could dissipate beyond our outlook horizon following the improvement in Nassau's residential tax appeal process and the state's authorization of a disputed assessment fund to address commercial tax appeals, though we note that tax certiorari bonding is expected to continue through 2017. This should save the county up to $60 million per year in bonding to pay the settlements. In addition, the county has implemented a number of structural reforms, including the aforementioned property tax levy increase in fiscal 2015--the first in several years, an 18% workforce reduction, public-private partnerships for delivery of bus services, sewer services, and correctional center health care, and successfully worked with the state on various initiatives, particularly the disputed assessment fund to address commercial tax certiorari payments. We understand that Nassau is also contemplating a further public-private partnership, likely in the form of a concession lease, for its sewer system, which could alleviate future capital and operating requirements and generate proceeds to prepay outstanding sewer-related and other GO debt.

While we recognize the significant efforts to reduce the county's reliance on bonding to finance noncapital-related costs, we believe the county remains susceptible to significant budgetary risk based on its reliance on economically sensitive sales tax revenue, which accounts for approximately 40% of revenue, and may not be able to keep pace with budget growth given the county's substantial wage and benefit costs, including pension and other postemployment benefits (OPEB), and its practice of bonding for tax certiorari claims and other judgments and settlements (though as mentioned, officials intend to end this practice in 2017). In our view, the county's budgetary performance is likely to remain weak on a GAAP basis, and that the rebuilding of available reserves remains a challenge.

Other key rating factors include our assessment of Nassau County's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Adequate liquidity, with total government available cash at 9.2% of total governmental fund expenditures and 75.6% of governmental debt service, and an exposure to a nonremote contingent liability risk, but access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges at 12.2% of expenditures and net direct debt that is 122.7% of total governmental fund revenue, and exposure to speculative contingent liabilities and a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value and rapid amortization, with 67.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider the county's economy very strong. Nassau County, with an estimated population of 1.4 million, is located 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 143% of the national level and per capita market value of $151,087. Overall, the county's market value grew by 2.1% over the past year to $204.6 billion in 2015. The county unemployment rate was 4.8% in 2014.

We believe the county benefits from transportation networks that provide residents with easy access to the greater New York City metropolitan area. Nassau's tax base is substantial despite a 20% decrease in market values since 2009 due to a combination of property tax appeals and continued weakness in values. We consider the tax base to be diverse with the top 10 taxpayer concentration at just 8.6% of assessed value. There are a number of significant projects underway throughout the County that we believe may positively affect the tax base. These include the extensive redevelopment of Nassau Coliseum and its surrounding area, which has a slated completion date of 2017, as well as a new Memorial Hospital for Cancer and Allies Diseases with Memorial Sloan Kettering.

Adequate management conditions

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

We believe that NIFA oversight of the county's budget, long-term financial plan, and debt issuance continues to support its FMA. The county maintains a four-year financial plan that is approved by NIFA with gap-closing measures identified, a robust four-year capital plan that includes funding sources, and monthly reports to elected officials and NIFA on budget-to-actual results. Although it maintains a comprehensive debt management policy, we note that it is not in compliance with several of its targets. Nassau also has an investment management policy that is updated annually, though holdings are only reported in the comprehensive annual financial report. The county maintains a fund balance target of 4% on a budgetary basis, though it has fallen short of this target in the past. In our opinion, Nassau's management strengths are tempered, at times, by political gridlock vis-à-vis the county legislature, collective bargaining units, underlying municipalities, and NIFA, which, in our opinion, has had an impact on the county's financial flexibility and performance.

Adequate liquidity

In our opinion, Nassau County's liquidity is adequate, with total government available cash at 9.2% of total governmental fund expenditures and 75.6% of governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary. Weakening Nassau County's liquidity position, in our assessment, is the county's exposure to a nonremote contingent liability that could come due within 12 months.

The county's cash balance is adjusted for restricted cash and includes proceeds from tax and revenue anticipation note (TAN and RAN, respectively) issuances that cross fiscal years and address cash shortfalls at certain points during the year. The county's reliance on cash flow borrowing has decreased since 2012--when note issuance reached a peak of $476 million--to $433 million in 2013, slightly less than $400 million in 2014, and $380 million for 2015. For 2016, the county's RAN/TAN issuance is forecast to remain at 2015 levels. In our opinion, the county's recurring market access for cash flow notes, GO bonds, and BANs, and its issuance of multiple security types (sales tax bonds issued through NIFA and non-GO property tax bonds through the Sewer and Storm Water Finance Authority) support our view of its exceptional access to external liquidity.

The county's 2014 audited cash position deteriorated relative to its very strong position in audited 2013 mainly as a result of structural and timing issues that include reduced cash flow note issuance in 2014, increased pension costs, Federal Emergency Management Agency expenses, timing of termination pay, sales tax shortfalls, and sewer operations. Furthermore, given the county's additional sales tax shortfalls in 2015 and the repeal of the speed camera legislation (effectively negating $30.7 million of budgeted revenue in the 2015 budget), we believe that liquidity could remain weak.

Also offsetting the county's liquidity strength is what we consider to be its exposure to contingent liquidity risk related to $209.9 million of guaranteed variable-rate NHCC debt--a level that exceeds the county's available cash balance at certain points during the year. Although the county under the guarantee continues to make NHCC debt service payments, we believe that the letters of credit securing the bonds contain permissive events of default that could lead to immediate acceleration. In addition, the discontinuation of the county's annual mission payment could put further pressure on NHCC's operations, creating the need for the corporation to draw on the county's guarantee.

Finally, the county is also exposed to termination risk of various interest-rate swap agreements associated with its NIFA and NHCC variable-rate debt issuance. The current marked-to-market value of these swaps is negative $79.3 million, which could be immediately due and payable following a termination event. In our view, however, these termination events are remote. We believe there is currently an adequate spread between the ratings on the counterparties and the county and the rating termination triggers. Therefore, we do not view the county's swap liability as an immediate credit factor. We, however, consider the swap exposure an offsetting credit concern at the county's currently liquidity levels despite the low likelihood of swap termination because the county is exposed to ongoing swap risk.

Very weak debt and contingent liability profile

In our view, Nassau County's debt and contingent liability profile is very weak. Total governmental fund debt service is 12.2% of total governmental fund expenditures, and net direct debt is 122.7% of total governmental fund revenue. Negatively affecting our view of the county's debt profile is its exposure to speculative contingent liabilities. Overall net debt is low at 2.7% of market value, and approximately 67.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The county expects to issue approximately $575 million in additional debt over the next two years, excluding BANs, RANs, and TANs. A portion of this additional debt issuance in 2016 will be for tax certiorari claims and termination pay for 2015, which is expected to end in 2017. The remaining $473 million is for capital needs.

We believe that recent state legislation establishing a Disputed Assessment Fund for commercial tax appeals should help provide some stability in the county's revenue base and reduce the need to access the market to finance tax certiorari claims for the county and its underlying towns, special districts, and school districts. Bonding for tax certioraris represents a substantial portion of the county's current debt burden. In our view, the county's exposure to additional litigation, tax certioraris, judgments and claims, and its NHCC debt guarantee further subjects it to speculative contingent liability risk.

In our opinion, a credit weakness is Nassau County's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Nassau County contributes to the state retirement system on behalf of its employees and elected to amortize $71.47 million of its contribution in 2014 across all funds. The county further reports it deferred $60.89 million of its pension payment in 2015 and projects to defer $41.1 million in 2016 across all funds. For 2014, it paid $142.66 million toward its annual required contribution (ARC) of $204.29 million for the Employees Retirement System and Police and Fire Retirement Systems. The county finances OPEB on a pay-as-you-go basis. New York State does not permit the funding of OPEB trusts. Fiscal 2014 contributions totaled $150.1 million, while the unfunded actuarial accrued liability was $4.6 billion as of Dec. 31 2014, the most recent valuation date. Together, the pension ARC and OPEB payments represented 11.1% of adjusted governmental expenditures, which we consider large. Although the state's pension systems are well funded, we believe that the county currently lacks mechanisms for addressing its substantial unfunded OPEB liability.

Strong institutional framework

We consider the institutional framework score for New York counties to be strong.

Outlook

The negative outlook reflects our opinion of Nassau's substantial budgetary pressure, including its reliance on economically sensitive sales tax revenue, bonding for judgments and claims, rising employee costs, and significant pension and OPEB costs without sufficient structural offsets. While the county has taken significant steps to restore structural balance, particularly the projected reduction of its use of bonding to finance noncapital-related expenditures, we believe that operations remain pressured, well after the end of the Great Recession, and that available reserves remain at very weak levels, limiting the county's budgetary flexibility. Given what we view as the county's already very weak reserves and exposure to contingent liquidity risk, we believe that continued structural adjustments will be necessary to maintain credit quality.

Downside scenario

We therefore believe there is a one-in-three chance that we could lower the rating, likely by one notch, during our two-year horizon. Barring evidence of improvement based on 2015 audited results, fiscal 2016 performance, and the 2017 budget, we could lower the rating within our outlook horizon.

Upside scenario

Conversely, should Nassau's flexibility and structural alignment and budgetary flexibility show sustainable improvement, coupled with a reduction in the county's exposure to contingent liability risk, we could return the outlook to stable.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Bond Anticipation Note Rating Methodology, Aug. 31, 2011
- Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015

- USPF Criteria: Municipal Applications For Joint Support Criteria, June 25, 2007
- Criteria: Joint Support Criteria Update, April 22, 2009
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of January 19, 2016)		
Nassau Cnty GO		
Long Term Rating	A+/Negative	Outlook Revised
Nassau Cnty GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO		
Long Term Rating	A+/Negative	Outlook Revised
Unenhanced Rating	NR(SPUR)	
Nassau Cnty NOTE		
Short Term Rating	SP-1+	Affirmed
Nassau Cnty NOTE		
Short Term Rating	SP-1+	Affirmed
Nassau Cnty (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Cnty GO		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Long Term Rating	A+/Negative	Outlook Revised
Nassau Hlth Care Corp, New York		
Nassau Cnty, New York		
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009B		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009C		
Long Term Rating	AAA/A-1+	Affirmed
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009D		
Long Term Rating	AAA/A-1	Affirmed

Ratings Detail (As Of January 19, 2016) (cont.)		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Hlth Care Corp (Nassau Cnty) GO		
Unenhanced Rating	A+(SPUR)/Negative	Outlook Revised
Nassau Regl Off-Track-Betting Corp, New York		
Nassau Cnty, New York		
Nassau Regl Off-Track-Betting Corp (Nassau Cnty)		
Unenhanced Rating	A(SPUR)/Negative	Outlook Revised

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.