S&P Global
Ratings

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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$147.445 mil gen imp bnds ser 2016C due 04/01/2043		
Long Term Rating	A+/Negative	New
US$35.0 mil BANs federally taxable ser C due 12/15/2016		
Short Term Rating	SP-1+	New
US$5.2 mil BANs ser 2016B due 06/14/2017		
Short Term Rating	SP-1+	New

Rationale

S&P Global Ratings has assigned its 'A+' long-term rating to Nassau County, N.Y.'s series 2016C general obligation (GO) bonds and its 'SP-1+' short-term rating to the county's series 2016B and C (taxable) bond anticipation notes (BANs). At the same time, we affirmed our 'A+' rating on the county's outstanding GO debt and our 'A' long-term rating on the Nassau Regional Off-Track Betting Corp.'s 2005 revenue bonds. The outlook, where applicable, is negative.

We also confirmed our 'AA+/A-1' rating on Nassau Health Care Corp.'s (NHCC) series 2009D Nassau County-guaranteed revenue bonds, our 'AA+/A-1+' rating on NHCC's series 2009C Nassau County-guaranteed revenue bonds, and our 'AA+/A-1+' rating on NHCC's 2009B Nassau County-guaranteed revenue bonds. The long-term component of the rating is based jointly on the ratings on the obligor, Nassau County, and the letter of credit provider, JPMorgan Chase Bank N.A. (medium correlation), Wells Fargo Bank N.A. (low correlation), and TD Bank N.A. (low correlation), respectively. The short-term component of the rating is based solely on the rating of the bank facility provider.

The negative outlook continues to reflect fiscal uncertainty regarding the county's future as it returns to fiscal stability. However, we note that likely positive results for fiscal 2015 that may increase reserves to an adjusted 1.9% of operating expenditures. In our opinion, while reserves are likely to increase in the near term, it is unclear if the county can sustain or add to these levels through the next two years.

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 in 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, we have rated the series 2005 bonds one notch below our '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.

The 2016C GO bonds are being issued to fund various public purposes, including capital projects and property tax refunds, and to refinance notes that originally financed various costs related to the remediation and restoration of county facilities and infrastructure from Superstorm Sandy-related damage. The 2016 series B BANs are being issued to refinance, in part, the county's series 2015B BANs and the series 2016C BANs are being issued to finance various sewer system improvements.

Key rating factors include our assessment of Nassau County's GO rating include its:

- 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 (FMA) methodology;
- Very weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2014;
- Very weak budgetary flexibility, with an available fund balance in fiscal 2014 less than negative 1% of operating expenditures that is also low on a nominal basis at negative $762,000;
- Adequate liquidity, with total government available cash at 9.2% of total governmental fund expenditures and 75.6% of governmental debt service, as well as 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 at 122.7% of total governmental fund revenue, and exposure to speculative contingent liabilities and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, 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 in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 139% of the national level and per capita market value of $150,725. Overall, market value grew by 2.1% over the past year to $204.6 billion in 2015. The county unemployment rate was 4.3% in 2015.

We believe the county benefits from transportation networks that provide residents with easy access to the greater New York City MSA. We consider the tax base 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 strengthen 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

We view the county's management as adequate, 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.

We believe that the Nassau County Interim Finance Authority (NIFA) oversight of the county's budget, long-term financial plan, and debt issuance continue to support its FMA. The county maintains a four-year financial plan approved by NIFA with gap-closing measures identified, a robust four-year capital plan that includes funding sources for fiscal years 2015-2018 and 2016-2019, 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 County 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 and though it has fallen short of this target in the past, it projects it exceeded this target at the end of fiscal 2015. In our opinion, its 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 effect on the county's financial flexibility and performance.

Very weak budgetary performance

Nassau County's budgetary performance is very weak, in our opinion. The county had operating deficits at negative 3.7% of expenditures in the general fund and negative 5.0% across all governmental funds in fiscal 2014. Weakening our view of Nassau County's budgetary performance is the county's deferral of significant expenditures, which we think inflates the budgetary result ratios.

For audited 2014, the county reported a negative operating result at 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.

The county estimates that 2015 ended with a $57 million budgetary-based surplus despite a $40.4 million negative variance in sales tax revenue receipts compared to budget. Further pressuring 2015 figures was the repeal of the speed camera initiative, coupled with a shortfall in red-light camera and ticket revenues, which resulted in a $41.1 million loss compared to budget. These negative results were offset by lower-than-budgeted salary and fringe-benefit expenditures of $52.5 million, debt service at $39.5 million under budget, and a Medicaid local share cap and other social service program cost reduction of $24.7 million, in addition to other variances. While draft GAAP-basis estimates have been provided, we believe that the county's overall performance will remain what we consider very weak following the inclusion of pension deferral, which totaled nearly $61 million in 2015 across all funds and after factoring in NIFA adjustments for noncapital-related expenditures funded from bond proceeds.

The 2016 budget, which conforms to the 2016-2019 multiyear 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, it includes what we consider a more conservative estimate of sales tax growth of 1.26% over fiscal 2015's projected results. Management's first-quarter projections indicate positive variances on sales tax collections of $7.9 million and (including other variances for revenues and expenditures) indicates the potential for a $5.1 million surplus as of its first-quarter projections. However, the county has elected to defer about $41.1 million in pension contributions across all funds that, when adjusted, will likely yield very weak results.

Very weak budgetary flexibility

Nassau County's budgetary flexibility is very weak, in our view, with an available fund balance in fiscal 2014 less than negative 1% of operating expenditures. In addition, the county's reserves are low on a nominal basis at negative $762,000, which we view as vulnerably low and a negative credit factor.

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.

For fiscal 2015, management projects an increase in reserves due to offsetting positive and negative budgetary variances that may yield an estimated $57 million budgetary surplus with an estimated $42 million addition to fund balance. The combined general fund, police fund, and NIFA fund may yield an available fund balance of about 1.9% after accounting for S&P Global data adjustments for ongoing pension deferrals and transfers out of these funds. However, we remain guarded toward the county's budgetary flexibility. Despite the expected positive development, results may vary and it is uncertain if the county could sustain higher reserve balances beyond fiscal 2015. While the 2016 budget does not include an appropriation of reserves, we believe that the county's available fund balance may remain very weak given ongoing budgetary pressures.

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 fiscal 2014 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 is taking proactive steps toward better cash management, with 2017 and 2018 cash flow notes outstanding not projected to exceed $300 million and eliminating the need for the rolling of cash flow notes. The county's reliance on cash flow borrowing has decreased since 2012 (when note issuance reached a peak of $476 million) to $377 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 revenue bonds through the Nassau County 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.

While management is projecting positive results for fiscal 2015, in our opinion, the county's overall liquidity position is likely to remain adequate. Improved cash management practices have led the county to reduce its June RAN issuance to $120 million and projects that 2017 and 2018 cash flow notes outstanding should not exceed $300 million. Despite these developments, the county may experience lower cash levels throughout the year, placing a strain on liquidity. However, as it returns to structural balance, it overall liquidity position should improve.

Also offsetting the county's liquidity strength is what we consider 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, although the county has a right to offset contract payments and has liens on NHCC assets to secure repayment.

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 mark-to-market value of these swaps is negative $78.8 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 and the county has a right to offset contract payments and has liens on NHCC assets to secure repayment of debt service repayment. Therefore, we do not view the county's swap liability as an immediate credit factor. However, we 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. Weakening 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 $427 million in additional debt over the next two years, excluding BANs, RANs, and TANs. It expects to end the need to bond out for tax certiorari claims in 2017.

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 it. Nassau County's combined required pension and actual OPEB contributions totaled 11.5% of total governmental fund expenditures in 2014. Of that amount, 6.8% represented required contributions to pension obligations, and 4.7% represented OPEB payments. The county made 99% of its annual required pension contribution in 2014. The funded ratio of the largest pension plan is 99.0%.

The county participates in the New York State and Local Employees' Retirement System (ERS) and Police and Fire Retirement System (NYSPFRS), which were about 97.9% and 99.0% funded, respectively, as of March 31, 2015, based on GASB 67 and 68 reporting for pension assets and liabilities. The county provides nonpension OPEBs to eligible employees. As of Dec. 31, 2015, its net OPEB obligation was approximately $5.0 billion, which includes both the county and an allocation of NHCC, NIFA, and OTB costs. In 2015, the county expended approximately $152.5 million to pay for OPEBs. Nassau County is not required to provide funding for OPEB sother than the pay-as-you-go amount necessary to provide current benefits.

New York State has allowed, under certain legislation, local governments to defer a portion of their pension contributions. The county has availed itself of this program and amortized nearly $61 million in 2015 across all funds. Through 2016, the total amount of the county's deferred pension contribution obligation under the Alternate Contribution Stabilization Program is approximately $173.5 million (all funds), which, when added to the $96.4 million deferred under the Contribution Stabilization Program, results in the county having deferred a total of approximately $269.9 million of pension expense through 2016 under both programs. Despite the strong funded status of the state plan, the significance of the deferrals, coupled with an inability to pre-fund the county's OPEB plan, leads us to view the nature of these obligations as elevated and likely to increase in the future, creating budgetary pressure. In our opinion, the county does not have a credible plan in place to address these obligations.

Strong institutional framework

The institutional framework score for New York counties is strong.

Outlook

The negative outlook reflects our opinion of Nassau County'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 it 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. 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 County's flexibility and structural alignment and budgetary flexibility show sustainable improvement, coupled with a reduction in its 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
- General Criteria: Methodology And Assumptions: Approach To Evaluating Letter Of Credit-Supported Debt, Feb. 20, 2015
- General Criteria: Methodology And Assumptions For Rating Jointly Supported Financial Obligations, May 23, 2016
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 19, 2016
- 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
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 25, 2016)		
Nassau Cnty GO		
Long Term Rating	A+/Negative	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (AGM) (SEC MKT)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed

Ratings Detail (As Of May 25, 2016) (cont.)		
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO		
Long Term Rating	A+/Negative	Affirmed
Unenhanced Rating	NR(SPUR)	
Nassau Cnty (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Cnty GO		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Long Term Rating	A+/Negative	Affirmed
Nassau Hlth Care Corp, New York		
Nassau Cnty, New York		
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009B		
Long Term Rating	AA+/A-1+	Downgraded
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009C		
Long Term Rating	AA+/A-1+	Downgraded
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Hlth Care Corp (Nassau Cnty) gtd 2009D		
Long Term Rating	AA+/A-1	Downgraded
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Nassau Hlth Care Corp (Nassau Cnty) GO		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
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	Affirmed

Many issues are enhanced by bond insurance.

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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.