

## Standard & Poor's Credit Research

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### Summary:

## Nassau County, New York; General Obligation

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### Table Of Contents

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Credit Highlights

Outlook

Credit Opinion

Related Research

## Summary:

# Nassau County, New York; General Obligation

### Credit Profile

US\$152.775 mil GO , gen imp bnds, 2023 series A due 12/31/2053

<i>Long Term Rating</i>	AA-/Stable	New
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US\$109.34 mil GO , gen imp bnds, 2023 refunding series B due 12/31/2043

<i>Long Term Rating</i>	AA-/Stable	New
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Nassau Cnty GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Nassau Cnty GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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### Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Nassau County, N.Y.'s 2023 general improvement bonds, series A, and series B general improvement refunding bonds.
- At the same time, S&P Global Ratings affirmed its 'AA-' rating on the county's GO (general obligation) debt outstanding.
- The outlook is stable.

### Security

The county's faith and credit—including the statutory authorization to levy ad valorem taxes on all real property within its borders, subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on a municipality's ability to annually increase the real property tax levy—secures debt service on the 2023 bonds as well as the GO debt outstanding.

Proceeds from series A will fund various capital projects throughout the county while proceeds from series B (pending market conditions) will refund certain maturities outstanding for net present value savings.

### Credit overview

Nassau County's financial position continues to strengthen through reserve growth and the elimination of a significant portion of its outstanding liabilities. Based on expected operating results for fiscal 2022, available reserves for its major operating funds will increase to a historic high of nearly \$661 million. The county has also established reserves to fund ongoing tax certiorari appeals, retirement and health care contributions, and employee benefits. In total, reserves will increase to over \$1.01 billion, positioning the county over the next couple of years to navigate economic headwinds stemming from inflation, rising mortgage interest rates (which could temper housing demand and mortgage recording taxes), and geopolitical uncertainty. Notably, these figures do not include \$304 million in unobligated American Rescue Plan Act (ARPA) funds, and the roughly \$77.2 million in Opioid Litigation Settlement funds, which provides officials with additional liquidity and budgetary flexibility.

Despite a substantially improved financial position, the uncertain economic environment, along with a weak debt and long-term liability profile, constrains upward rating movement in the near term. We will continue evaluating the county's ability to balance its sizable long-term liabilities with additional reserve growth, along with maintenance of steady operations and good financial management practices, which is especially important when its primary revenue source (sales tax collections) is vulnerable to economic factors.

For additional information on S&P Global Ratings' view of the economy, see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published Mar. 27, 2022, on RatingsDirect.

Additional rating factors include our view of the county's:

- Diverse wealthy economy with a robust economic base and proximity to New York City
- Good financial management practices (historically hampered by political gridlock) and a strong institutional framework score;
- Consecutive years of positive operations supported by robust sales tax performance which has significantly improved reserves and liquidity, and has allowed management to address its backlog of tax appeals; and
- Manageable fixed debt burden, though with outsized other postemployment benefit (OPEB) liability for U.S. counties equal to \$6.5 billion, and state statutes do not provide a mechanism for local governments to prefund the obligation.

### **Environmental, social, and governance**

The county's location on Long Island exposes its tax base to physical risks from extreme weather that could disrupt revenue collections in the event of a significant acute event like a hurricane or instances of chronic flooding following substantial rainfall. We view these risks similarly for many Long Island communities and believe county and regional planning efforts and adaptation infrastructure projects somewhat mitigate our near-term credit concerns. We incorporate countervailing governance structure aspects into our rating analysis. We think the statutory framework providing for Nassau County Interim Finance Authority's (NIFA) is positive. However, the inability of New York local governments to prefund their OPEB liabilities is a weakness for the portfolio. We view the county's social risks as neutral within our credit rating analysis.

## **Outlook**

The stable outlook reflects the county's recent robust operating performance, leading to a substantially improved financial and liquidity position. This is the result of budgetary policies designed to achieve long-term structural balance, along with the county's commitment to improving reserves.

### **Downside scenario**

We could lower the rating if the recent positive results reverse course or if management is unable to maintain budgetary balance, particularly after exhausting its federal fiscal stimulus funds.

## Upside scenario

We could raise the rating if the county can sustain its recent improvement in budgetary performance and reserve growth to an extent that sufficiently offsets the long-term liability profile.

## Credit Opinion

### **Robust economic base and proximity to New York City provide credit rating stability**

With its proximity to New York City and major employment centers in surrounding Suffolk and Westchester counties as well as Fairfield County, Conn., Nassau County serves as a wealthy bedroom community as well as a diversified economic engine with extensive access to the New York City metropolitan area through road and rail transportation networks. Furthermore, the county has its own major employers, including Memorial Sloan Kettering Hospital for Cancer and Allied Diseases and the Cohen Children's Northwell Health facilities. Strong housing development reflects a focus on transit-oriented options that attract young professionals looking for slightly more affordable choices and families looking for larger residences while taking advantage of hybrid working conditions.

### **Substantial sales tax revenue growth and expenditure controls underscore positive operating results; higher liquidity and financial reserves negate cash-flow borrowing requirements**

Our financial analysis combines the county's general, NIFA, and police district funds into a net operating fund to calculate performance and reserves. Results also reflect NIFA debt service payments, recurring transfers, and the removal of expenditures related to capital projects, tax certiorari, and judgments and settlements paid from bond proceeds. Major operating revenue includes sales (about 45%) and property (22%) taxes based on fiscal year-end 2023 revenue projections.

The county continues to perform well on the heels of robust sales tax growth. It currently projects a surplus of \$321.4 million for fiscal 2022. The year-end estimates are largely the result of sales tax collections of more than \$1.5 billion (about 9.3% higher than budgeted). The robust sales tax result allowed the county to pay down its \$122.9 million in outstanding pension deferrals, and offset weaknesses in departmental revenue, which was down primarily due to slower real-estate activity. Contributing to the surplus were positive expenditure variances of about \$206 million (6.5% of budget) from various cost-containment measures such as lower salary and fringe benefits, contractual payments, and reduced demand for some services.

The county plans on allocating the fiscal 2022 surplus toward paying down the roughly \$383.4 million in tax certiorari claims outstanding, as well paying the longevity pay settlement with labor groups, and continuing to add funds to established reserves for labor-related costs, pension, health, and other insurance. Over the longer term, we believe the positive credit rating trajectory hinges on management's focus on expenditure control and implementation of recurring balancing solutions to cover annual tax certiorari with current-year revenue.

The fiscal 2023 adopted budget totals \$3.3 billion (1.6% higher than that for fiscal 2022). Fiscal 2023 sales tax collections (prior to NIFA set-asides) amount to \$1.52 billion, virtually on par with fiscal 2022 sales tax revenue. The budget conservatively includes salary settlements for its labor groups, including those that remain under contract negotiations. Should sales tax revenue trends continue (as of the first quarter, it is about 16% ahead of projections, in part due to price inflation), we believe operating results could show another surplus at year-end. These estimates do

not account for the additional operating support from unspent ARPA funds, which the county is considering using for COVID-19-related revenue losses.

The county typically taps the bond market for cash-flow purposes. However, officials report that cash-flow borrowing will be unnecessary in fiscal 2023 and unlikely in fiscal 2024 given their strong cash balances. Cash management practices are sound, and notably, Nassau County terminated its interest rate swap agreements associated with NHCC's and NIFA's debt obligations in fiscal 2021, substantially de-risking the liquidity and debt profile

### **Management's relationships with key stakeholders improving**

Previously, political gridlock with the county legislature, collective-bargaining units, underlying municipalities, and NIFA tempered management strengths. We believe these relationships with key stakeholders, particularly with the collective-bargaining units and NIFA, have recently improved, as is evident in the county's ability to settle several labor contracts outstanding and enlist NIFA's assistance to help close the fiscal year 2021 and 2022 budget gaps by restructuring debt.

In June 2000, the state legislature created NIFA, an independent oversight authority with additional powers during a control period, including the ability to approve the county's multiyear financial plan. In our opinion, the county has done well in instituting improved budgetary practices, and ongoing NIFA oversight of the budget, long-term financial plan, and debt issuance continue to support the financial management assessment (FMA). Nassau County maintains a four-year financial plan approved by NIFA, a robust four-year capital plan that includes funding sources and uses, and monthly reports on budget-to-actual results to elected officials and NIFA. Although it maintains a comprehensive debt management policy, the county views several indicators as targets rather than as hard caps. Nassau County also has an investment policy with holdings included in the comprehensive annual financial report. It maintains a fund balance target of no less than 4% and no more than 5% of prior-year expenditures on a budgetary basis in the general fund and countywide special revenue funds.

The institutional framework score for New York counties is strong.

### **Debt service costs are manageable, but OPEB liability remains a potential credit rating constraint**

As of March 31, 2023, the county's long-term debt outstanding (including GO bonds, sewer and stormwater bonds, and bonds issued through the state's environmental facilities corporation) as well as NIFA debt totaled approximately \$3.1 billion. It regularly evaluates its capital plan, and we anticipate annual borrowing consistent with the current transaction. The county's exposure to additional litigation, tax certiorari, judgments, and claims, and its NHCC debt guarantee creates some speculative contingent liability risk. But with the litigation reserve created with the surplus and as the county continues eliminating and paying tax certiorari claims, we believe this risk is subsiding.

#### **Pension and OPEB liabilities**

- In our opinion, the county's large OPEB obligation equal to \$6.5 billion as of Dec. 31, 2020, could constrain further upward rating movement.
- The county is unable to prefund the obligation because of state statutes, which given its already high fixed costs could create future budgetary pressures as those costs increase, and during periods when revenue may be under pressure.

Nassau County participates in the following state-administered pension plans:

- New York State Employees' Retirement System, fully funded as of the March 31, 2021 measurement date; and
- New York State & Local Police & Fire Retirement System, funded at 96% with the county's share of the net pension liability equal to about \$143.7 million as of the March 31, 2021 measurement date.

The New York State pension plans are well funded, and the discount rate is a conservative 5.9%. The county has paid off all its pension deferrals and its current payments regularly exceed minimum and static funding progress. These actions support our view that pension contributions are not the primary source of fiscal pressure for long-term liabilities.

We view the county's net liability associated with its OPEB requirement as creating fiscal pressure over the long term. OPEBs are provided through a single-employer, defined-benefit plan. Although the county executive and legislature retain the right to establish and modify benefits, the state does not uniformly allow for the prefunding of this liability, leaving the county's financial position at risk should costs grow relative to retirement and health care trends.

Nassau County, New York--Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	151			
Market value per capita (\$)	155,956			
Population	1,357,196	1,359,898	1,374,787	
County unemployment rate(%)	4.5			
Market value (\$000)	211,662,546	248,424,030	236,228,932	
Ten largest taxpayers % of taxable value	11.0			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures	18.4	3.5	4.5	
Total governmental fund result % of expenditures	12.7	0.5	3.0	
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures	9.5	8.9	3.7	
Total available reserves (\$000)	277,270	260,656	114,170	
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures	25	9	10	
Total government cash % of governmental fund debt service	455	95	80	
<b>Adequate management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures	5.4	9.8	12.1	
Net direct debt % of governmental fund revenue	102			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	52			

**Nassau County, New York--Key Credit Metrics (cont.)**

	Most recent	Historical information		
		2021	2020	2019
Required pension contribution % of governmental fund expenditures		5.3		
OPEB actual contribution % of governmental fund expenditures		6.0		

**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 April 11, 2023)**

Nassau Cnty GO		
Long Term Rating	AA-/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	
Nassau Cnty GO		
Long Term Rating	AA-/Stable	Affirmed
Nassau Cnty GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

## Ratings Detail (As Of April 11, 2023) (cont.)

Nassau Cnty GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (AGM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed



## Ratings Detail (As Of April 11, 2023) (cont.)

Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Nassau Cnty GO (BAM) (SEC MKT)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

**Nassau Health Care Corp., New York**

Nassau County, New York

**Ratings Detail (As Of April 11, 2023) (cont.)**

Nassau Hlth Care Corp (Nassau Cnty) GO

*Long Term Rating*

AA-/Stable

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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