

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms Aa1 on Nassau County SSWFA, NY; removes positive outlook

22 May 2024

New York, May 22, 2024 -- Moody's Ratings (Moody's) has affirmed the Nassau County Sewer and Storm Water Finance Authority's outstanding revenue bonds at Aa1. The authority has approximately \$61 million in revenue bonds outstanding. Following our announcement on January 4, 2024 regarding the assignment of outlooks to US Public Finance Local Governments, we have removed the positive outlook.

RATINGS RATIONALE

The Aa1 rating incorporates strong coverage of debt service (over 9x), a historically stable and predictable revenue source, and a manageable debt position. While the bonds are revenue bonds, the revenue supporting the bonds is property taxes levied by the county and collected by the town's and city's. These revenues will continue to be substantial given management's incentive to levy the tax to support the operations of the Sewer District. In 2023, the authority had \$163 million in revenue against \$17 million in debt service. Once debt service is paid the authority transfers the remaining money to the Sewer District, which in 2023 totaled \$146 million. While the authority has only \$1.6 million in fund balance (as of 2023), this is sufficient since after the debt service is paid and the money is transferred there are no other operating expenses. However, the entirety of the \$146 million transferred to the Sewer District is available for operations prior to transfer and thus if these funds were added back to available reserves the authority would have a much strong reserve and cash position. In addition, the rating incorporates a bond structure with a 'lock box' where tax revenues flow from the tax receivers to the trustee to pay debt service and associated expenses prior to being remitted to the county and a strong 2x additional bonds test.

There is a strong governance linkage between the Authority and Nassau County. The Authority has no employees and thus the county manages the debt of the authority. Additionally, the county appoints the authority board and is responsible for setting the revenue structure, currently taxes (sometimes referred to as assessments), as well as

setting the tax rate. The one-notch distinction between the county and the Authority reflects the close linkage, as well as a strong legal framework and flow of funds.

RATING OUTLOOK

Moody's does not assign outlooks to local government issuers with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Improvement of the county's issuer rating

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Deterioration of the county's issuer rating
- Decline in coverage or liquidity
- A change in revenue structure

LEGAL SECURITY

The series 2014 bonds are special obligations of the authority and secured by a gross revenue pledge. While the authority does not have taxing power, gross revenues are paid to the authority from the county. The county is required to levy taxes or impose charges in amounts sufficient to pay debt service, maintain reserves, and authority and system operating expenses. The financing agreement for the series 2014 bonds requires all revenues to be deposited with the trustee to pay authority debt service and other expenses before any money is transferred to the county.

PROFILE

Nassau County Sewer and Storm Water Fin. Auth was created by the State of New York Legislature. The authority was established to refinance existing and finance future Nassau County sewer and storm water projects. Currently, the obligations of the authority are payable from revenues primarily generated by dedicated county property taxes.

METHODOLOGY

The principal methodology used in this rating was US Special Purpose District General Obligation Debt Methodology published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/394972>. An additional methodology used in this rating was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/rmc-documents/70024>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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Robert Weber
Lead Analyst
REGIONAL_NE
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Thomas Jacobs
Additional Contact
REGIONAL_NE
JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

Releasing Office:

Moody's Investors Service, Inc.

250 Greenwich Street

New York, NY 10007

U.S.A

JOURNALISTS: 1 212 553 0376

Client Service: 1 212 553 1653

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