FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Monroe County, NY's IDR, GOs to 'AA-'; Outlook Stable

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Fitch Ratings - New York - 14 Nov 2023: Fitch Ratings has upgraded the following Monroe County, NY ratings to 'AA-' from 'A+':

--Issuer Default Rating (IDR);

--Approximately $16.3 million outstanding limited tax general obligation (LTGO) bonds.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Monroe County (NY) [General Government]	LT IDR	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Stable
Monroe County (NY) /General Obligation - Limited Tax/1 LT	LT	AA- Rating Outlook Stable	Upgrade	A+ Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

SECURITY

The LTGO bonds are general obligations of the county for which the county has pledged its full faith and credit and ad valorem taxing power, subject to a 2011 state statute that limits annual property tax increases to the lesser of 2% or an inflation factor (the tax cap law). This limit can be overridden annually by a 60% vote of the county's governing body.

ANALYTICAL CONCLUSION

significant independent legal ability to increase revenues, and satisfactory control over spending.

Economic Resource Base

The county is home to the city of Rochester and located on the southern shore of Lake Ontario in western New York. The county's 2022 U.S. census population of 752,035 has grown by 1% since fiscal 2010. Wealth levels are below New York state averages, but roughly in line with U.S. averages.

KEY RATING DRIVERS

Revenue Framework: 'aa'

Fitch believes the county's natural revenue growth prospects will continue to align with inflationary growth, given recent improvements in taxable assessed value (TAV) growth. The county has significant independent legal ability to raise revenues given its ability to exceed New York State's annual property tax cap by a supermajority vote of the county council.

Expenditure Framework: 'aa'

Expenditure growth will likely remain in line with revenue growth prospects given limited new service needs and a slowly expanding population. The county's expenditure flexibility is solid and carrying costs for debt service, pension and other post-employment benefits (OPEB) are low.

Long-Term Liability Burden: 'aaa'

The long-term liability burden is low relative to the county's economic resource base. Future borrowing plans are modest.

Operating Performance: 'aa'

Fitch expects the county to maintain very strong gap closing capacity through economic cycles. The county's financial resilience has improved notably in recent years. County officials have formalized a new fund balance policy that Fitch believes will help the county to maintain its improved financial resilience and strong budgetary flexibility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Sustained maintenance of general fund reserve levels near or above policy levels that signal a permanent improvement in the county's financial resilience;

--Sustained economic growth that translates into faster revenue growth prospects.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A sustained weakening in the local economy that results in revenue growth below inflation;

The county's financial resilience has improved in recent years driven in part by federal stimulus and robust sales tax collections. The county has also adhered to conservative budgeting practices, and has implemented a new policy to maintain a fund balance equal to at least 10% of expenditures for all operating funds. Fitch believes this formal policy will provide the county with a very strong financial cushion to close budget gaps in the event of a revenue shortfall or to address other fiscal pressures.

The county has formalized a policy to maintain $140 million (plus or minus $10 million) of reserves in the general fund balance, which is equivalent to roughly 10% of fiscal 2023 budgeted spending. The county will utilize fund balance if it exceeds the $140 million threshold and will replenish it if reserves falls below the threshold.

The county's $1 billion fiscal 2023 adopted general fund budget assumed a $4.9 million increase in the property tax levy while lowering the tax rate to 7.56 mills. Levy growth was driven by a 13% increase in property tax values due to increased economic activity. Budgeted county share sales tax revenues are projected to grow by 10.5% and federal and state transfers are expected to be flat, budget to budget. The county appropriated $22.7 million of fund balance to fund anti-violence initiatives, redeem bond anticipation notes, offset an increase in the tax levy, fund a debt service reserve and to support the county's Pure Waters Fund. The county is working on the fiscal 2024 budget and anticipates modest use of general fund reserves in both the 2024 and 2025 budgets. Management nevertheless plans to maintain reserves above its new general fund balance policy floor of $140 million.

CREDIT PROFILE

The county's economy has diversified from its manufacturing roots, and is home to a robust healthcare and higher education presence. The University of Rochester Strong Health System is the county's leading employer with approximately 24,548 employees, followed by Rochester Regional Health System at 112,759 and Wegmans Food Market at 6,130.

Fitch expects the county to benefit from ongoing development including Gallina Development Corp.'s purchase of the former Xerox 30-story office tower, which will be used to develop a combined office, residential and educational space to support the creation of an innovation center in the downtown area. Other notable developments include the South Park Development, LLC (an e-commerce distribution facility), and HYZON Motors, Inc., a hydrogen fuel cell technology company, both of which are expected generate additional jobs in the area. Recent unemployment statistics are trending below New York state's rates and are in line with U.S. rates.

Revenue Framework

General fund revenues are derived from sales and property taxes, which account for 41% and 28% of revenues, respectively. Total county sales tax collections were $638 million in 2022, but the county only retains 32% of its share ($202.9 million in 2022); the remaining 68% is shared with the county's local government units including the City of Rochester. The county's receipt of intergovernmental revenues has historically been determined by caseload trends for social services managed by the county as well as by broad state and federal service mandates.

Fitch expects general fund revenues will continue to grow at a rate that approximates inflation based on the county's history of moderate economic and population growth. General fund revenue growth was at the rate of inflation based on a 10-year CAGR through fiscal 2022.

The county retains substantial independent legal ability to raise revenues, despite a New York State law limiting annual property tax increases to the lesser of CPI or 2%. The limit may be overridden if at least 60% of the total voting power of the local governing body -- the county legislature, in the case of the county -- approves the proposed increase. The county held the tax rate at 8.99 mills from 2008 through 2018 and has lowered it in recent years due to recent stronger growth in TAV.

The county has other means of revenue raising, as well, including the ability to significantly increase revenues by billing its localities for services, referred to as chargebacks. The

The majority of the county's general fund expenditures are for health and welfare (38% of fiscal 2022 spending) and general government (36%); followed by public safety services (19%). State mandated costs for social services and economic assistance make up a significant amount of the budget.

Fitch expects that expenditure growth will remain in line with, to moderately above, revenue growth based on modest growth in labor costs and a slowly growing population, which limits growth in service needs. The county has a history of negotiating manageable salary increases in labor contracts; however, salaries are expected to increase more meaningfully in the short term so that the county may attract and retain new workers and minimize currently high vacancy rates. The county has also offered modest off-contract pay raises and retention bonuses.

Fitch believes that Monroe County's expenditure flexibility is solid. Management has demonstrated an ability to adjust spending in times of weaker revenue performance. Carrying costs for pension, OPEB and debt service account for a low 7.6% of total governmental expenditures.

Long-Term Liability Burden

The long-term liability burden accounts for just over 4% of personal income, the majority of which relates to overlapping debt. The county's tax-supported borrowing plans to fund capital improvements are modest. The county's six-year Capital Improvement Plan (2024-2029) includes $219 million in tax supported projects for various infrastructure improvements including highways and bridges, facilities management and for Monroe Community College and various other projects.

The county participates in two of the state's defined benefit retirement systems: the State and Local Retirement System and the Police and Firefighters Retirement System. The ratio of combined pension assets to liabilities is fully funded at the Fitch adjusted 6% rate of return assumption as of December 2022. The unfunded actuarial accrued liability for other post-employment benefits (OPEB) is $421 million, less than 1% of personal income.

Operating Performance

Fitch believes that the county has very strong financial resilience with $263 million in unrestricted general fund reserves, 18% of general fund spending as reported in the 2022 audit. Unrestricted general fund balance, net of the local share sales tax distribution, is equal to roughly 25% of general fund spending. The county plans to maintain general fund balance of $140 million, equal to roughly 10% of 2023 budgeted spending.

The county's new policy of maintaining unrestricted reserves equal to at least 10% of spending is a notable departure from recent history and its prior fund balance policy. Prior to 2019, the county had typically maintained general fund reserves at about 2% to 4% of spending since the Great Recession. The county's revenue streams have exhibited minimal volatility, however, and the county has a proven track record of solid expenditure management. Unrestricted reserve levels had begun to increase shortly before the pandemic.

Monroe County has been actively managing its expenses in support of its efforts to reduce property tax rates and limit the growth of government spending. Prior to the pandemic, the county had an unassigned fund balance policy of maintaining reserves equal to between 2.5%-4.4% of general fund spending, resulting in gap-closing ability that Fitch had regarded as just adequate. Fitch expects the county will maintain general fund reserves at roughly 10% of general fund spending, including the local sales tax distribution, going forward based on its new policy and track record of conservative budgeting. The county has consistently achieved general operating surpluses since 2014.

As of December 2022, the government-wide cash position was equal to 132 days of operations. The county had historically maintained less than 60 days cash on hand and relied on seasonal cash flow borrowing to support cash flow due to the timing of receipts of state and federal funding. The county has not had to issue cash flow notes since 2020.

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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Dodd-Frank Rating Information Disclosure Form

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Endorsement Policy

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Monroe County (NY)	EU Endorsed, UK Endorsed

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