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Nassau (County of) NY, Nassau County Interim Finance Authority, NY

NIFA's restored borrowing power will provide interest savings as county grapples with coronavirus impact

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New York State's fiscal 2021 budget, which Governor Andrew Cuomo signed into law on April 3, includes a restoration of Nassau County Interim Finance Authority's (NIFA, Aa1 stable) bonding authority that is intended to help Nassau County, New York (A2 stable) manage the effects of the coronavirus. The law permits NIFA to issue bonds backed by the county's sales tax revenue for various county purposes between now and December 31, 2021 with the amount for property tax refunds capped at $400 million.

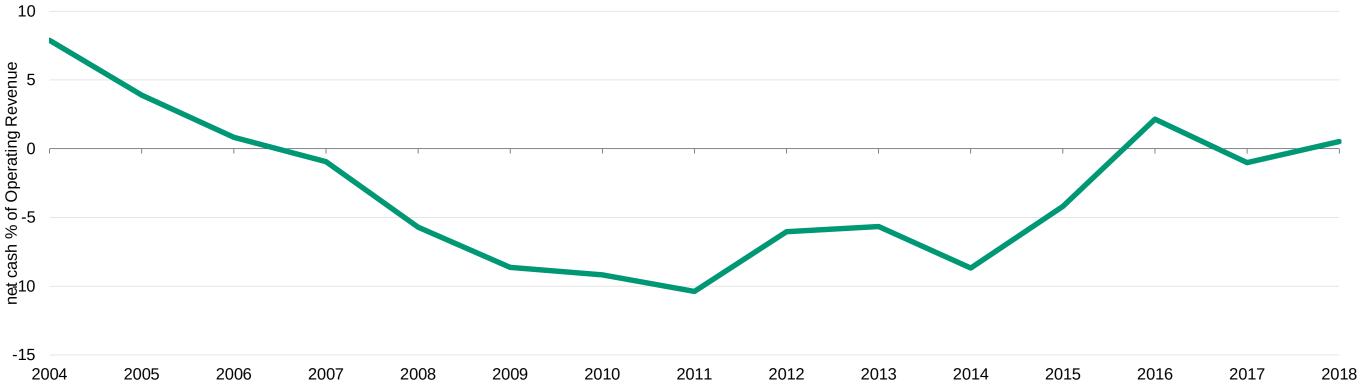
Restoring NIFA's bonding authority gives the county more room to issue bonds supported by NIFA's higher credit rating, which will save significantly on interest costs and provide better market access. While the recurring savings will not replace sales tax revenue lost as a result of the coronavirus, they will help the county as it copes with the impact of the outbreak.

Along with increased bonding authority, the law will extend NIFA's oversight of the county's finances to the extent that any new debt matures beyond the current NIFA final maturity of November 2025. The extension, likely until 2051, is positive for the county. The authority is an important factor in the county's credit rating because it provides significant monitoring of the county's budget and operations. NIFA's most important tool is its ability to freeze union contracts during a control period, which in the past has led to savings of millions of dollars for the county.

The virus' rapid spread and the closure of all nonessential businesses will likely lead to a sudden and severe decline in county sales taxes, a primary source of revenue (34% of operating revenue). A recent study by the New York Association of Counties estimated that in a mild recession the county's sales tax revenue would fall by 4.2%, or nearly $50 million for the year, which would punch a sizable hole in the county's 2020 budget. Given that management estimated sales tax revenue would increase by nearly $33 million over projected 2019 results, the budget hole in 2020 will likely exceed $80 million (2.5% of budgeted general fund revenue) -- possibly by a significant margin. Given the county's already-narrow liquidity position (see Exhibit 1), any significant deviation from budgeted revenue would be credit negative.

Exhibit 1

Net cash has improved in recent years, but Nassau County is not well prepared for a recession



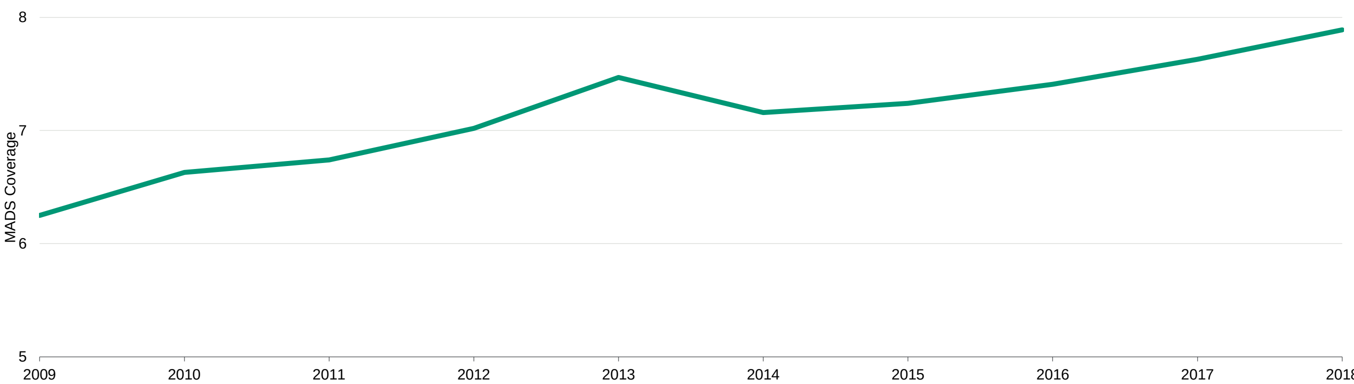
Source: Nassau County's audited financial statements

The decline in sales tax revenue will be negative for NIFA, but given the authority's significant debt service coverage (see Exhibit 2), the decline will not have a material effect on credit quality. The increased bonding authority will also have a limited effect on coverage. NIFA's current outstanding debt will be fully retired by 2025. Even if coverage were to fall significantly, which is unlikely, the authority could backload the debt service so that principal and interest costs would not hit until 2022 or later. At that point, the county's sales taxes will have likely rebounded and coverage will have improved.

Exhibit 2

NIFA has ample capacity to handle a decline in revenue and increase in debt service

Coverage of maximum annual debt service



Source: NIFA Annual Report

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