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Ratings

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Summary:

Nassau County Interim Finance Authority, New York; Sales Tax

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Credit Profile		
US$595.77 mil sales tax secured bnds ser 2021A due 11/15/2035		
Long Term Rating	AAA/Negative	New
US$562.64 mil sales tax secured bnds ser 2021B due 11/15/2030		
Long Term Rating	AAA/Negative	New
Nassau Cnty Interim Fin Auth sales tax		
Long Term Rating	AAA/Negative	Affirmed
Nassau Cnty Interim Fin Auth sales tax		
Long Term Rating	AAA/Negative	Affirmed
Nassau Cnty Interim Fin Auth sales tax secured var rt bnds ser 2008B dtd 11/02/2020 due 11/15/2021		
Long Term Rating	AAA/A-1/Negative	Affirmed
Nassau Cnty Interim Fin Auth SALESTAX		
Long Term Rating	AAA/A-1+/Negative	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating on the Nassau County Interim Finance Authority (NIFA), N.Y.'s series 2021A sales-tax-secured bonds (approximately $596 million) and series 2021B taxable sales-tax-secured bonds (approximately $563 million). At the same time, we affirmed our 'AAA' long-term rating on NIFA's sales-tax-secured debt outstanding as well as various dual ratings on NIFA's variable-rate demand bonds where the short-term rating component reflects the credit quality of the liquidity provider. The outlook, where applicable, is negative.

The bonds are secured by Nassau County's share of a 4.25% local sales tax, less a 0.25 percentage point component allocated to towns and cities within the county and a 0.083 percentage point component allocated to villages. Of the total 4.25% levy, 1.25 percentage point is subject to reauthorization by the state and county legislatures known in New York as the "extender," which was recently reauthorized through Nov. 30, 2023. We believe the state legislature's historical approval of the extension mitigates the renewal risk. Proceeds from the bonds will refund and restructure a portion of NIFA and the county's debt outstanding to achieve debt service savings estimated at 9.6% of the refunded bonds.

NIFA received state authorization during the 2020 legislative session to issue bonds for county purposes through Dec. 31, 2021, authorization that was previously exhausted in 2007. Furthermore, the authorization provided extension of the final maturity on NIFA debt to Jan. 31, 2051, from 2025. The restructuring of NIFA's debt outstanding will extend the final maturity to 2035 from 2025 and concentrate savings in fiscal years 2021 and 2022 to alleviate the county's budget pressure. Following the transactions, NIFA will have about $1.2 billion in debt outstanding, about $850 million of which represents refunded county debt.

Credit overview

Although the pandemic has temporarily weakened sales tax collections, revenue remains in excess of $1 billion in fiscal 2020 and provides extraordinarily strong coverage of 7.4x maximum annual debt service (MADS). MADS coverage was 8.2x when considering fiscal 2019 collections. In addition, the 'AAA' rating reflects our view of Nassau County's broad economic base, which reached nearly $250 billion in 2020. Nassau County's economic base on which pledged revenue is levied and collected is an important aspect of our analysis, but we believe NIFA's oversight responsibilities as detailed in state statute, together with the state's governance of NIFA, support the priority lien rating linkage to New York State, which constrains the NIFA 'AAA' rating as a result of the close relationship. Furthermore, the state comptroller's collection and distribution of taxes to the trustee for payment of debt service prior to any residual transfers made to the county to fund operations lessens the risk that revenue could be diverted to address the county's budgetary challenges. In our opinion, NIFA's strong oversight and control functions limit both the county's likelihood of severe fiscal distress as well as its attempts to interfere with pledged revenue in a distress scenario. The negative outlook reflects the linkage to the state. For more information on New York State, see our report published Dec. 14, 2020, on RatingsDirect.

Key credit considerations include:

- Very strong underlying wealth and income indicators in Nassau County as well as its robust employment base that support residents' disposable income that drives pledged revenue collections;
- Fiscal 2020 year-to-date collections that provide more than 7x coverage of MADS payable in fiscal 2029;
- Our view of sales taxes that demonstrate historically low volatility through various economic cycles, with no history of significant volatility at the local level outside of the current pandemic; and
- The state's creation of NIFA and its governance as identified in state statute, as well as the legal and mechanical structure outlined in the bond documents, support our view that the county's budgetary pressures are less likely to affect pledged revenue.

NIFA's sales tax bonds are eligible to be rated above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, NIFA derives nearly 100% of its revenue from local sales tax collections, the authority to levy and collect the sales tax is independent from the federal government, and NIFA maintains independent treasury management from the federal government.

Environmental, social, and governance factors

We believe health and safety social risks stemming from the pandemic that resulted in high unemployment and social activity restrictions have temporarily weakened the economic base on which pledged revenue is generated. Despite these social risks, we believe the long-term trajectory of the economic fundamentals remains very strong. Furthermore, although Nassau County is exposed to physical risks that could disrupt pledged revenue collections should widespread property damage occur following a severe weather event, we believe state and regional planning efforts mitigate environmental risks. Although generally we view debt restructurings that extend the maturity date as potentially indicative of significant fiscal distress and a lower rating, we view NIFA's role in the transaction as consistent with its oversight responsibilities to help stabilize the county's financial operations, which we consider a governance opportunity.

Negative Outlook

Downside scenario

Under our criteria, there is a link between the attributes of the priority lien pledge and the State of New York as a related entity. As a result, if the rating on the State of New York deteriorates, we would lower the NIFA rating. In addition, if MADS coverage falls to less than 4x, which we consider extraordinarily strong, as a result of additional leverage or a substantial decline in pledged revenue, we could lower the rating.

Return to stable scenario

An outlook revision to stable would occur in conjunction with one on the New York State rating outlook.

Credit Opinion

Economic fundamentals: Very strong

Nassau County, with an estimated market value of nearly $250 billion and population of 1.4 million, serves as an economic engine for the New York City region. In addition, although the unemployment rate peaked at 15.6% in April, the rate declined to a more normalized 5.5% in November, which we believe reflects the county's large and diverse employer base, including Memorial Sloan Kettering Hospital for Cancer and Allied Diseases and the Cohen Children's Northwell Health facilities. Furthermore, access to major employment centers in surrounding Suffolk and Westchester counties as well as Fairfield County, Conn., leads us to believe that job growth will support the county's long-term economic fundamentals. In addition, management reports an uptick in high-end housing located on larger lots, which likely reflects relocation of families to suburban areas to obtain larger living quarters while work-from-home dynamics alleviate commuting requirements. The county's sizable economy underpins the 'A+' long term rating, and we believe stability is evidenced by improved revenue trends and lower unemployment. However, the economic trends may remain tempered until a larger swath of the population is vaccinated, as discussed in S&P Global Economics' report "Staying Home for the Holidays," published Dec. 2, 2020.

Coverage and liquidity: Very strong

In fiscal years 2010 to 2019, sales tax collections within Nassau County grew by a compound annual growth rate of 2.3%, with fiscal 2019 revenue surpassing this average to reach almost $1.2 billion (3.5% over the prior year). Although the fiscal 2020 budget included a 1.9% increase in sales tax revenue over 2019 actual collections, at the onset of the pandemic revenue was revised 20% lower. The revision reflected a precipitous decline in collections of about 26% in April and 34% in May as strict stay-at-home orders were implemented to control the spread of the virus. Although revenue received during the third and fourth quarters offset a portion of the loss from the second quarter, fiscal 2020 year-to-date collections of $1.05 billion are about 5.7% below the prior-year period amount. Given the lag in collections, revenue received through mid-February 2021 will accrue to the prior year. We estimate that revenue of $1.05 billion provides extraordinarily strong MADS coverage of 7.4x. MADS is payable in 2029 and equal to about $143 million, following the refunding and restructuring. We believe the sales tax revenue forecast for fiscal 2021 is reasonable at $1.02 billion, or 12.6% lower than fiscal 2019 actual collections, which reflects the uncertainty of the economic recovery. The forecast shows revenue rebounding by fiscal 2024 to the level collected in fiscal 2019.

Based on the strength of the coverage, there is no requirement to maintain a debt service reserve for the benefit of bondholders. Furthermore, following payment of debt service, the county receives from NIFA a residual transfer to fund its operations, which provided about 36% of general fund revenue in fiscal 2019. As a result, we see limited likelihood that NIFA would leverage sales tax revenue to the additional bonds test of 3x annual debt service.

NIFA had about $412 million in sales tax secured debt outstanding as of Dec. 31, 2019, of which nearly $224 million was variable rate hedged with swap agreements that synthetically fix the debt into fixed-rate mode. As of Dec. 31, 2019, the mark-to-market fair value of the swap agreements was negative $12.7 million. With the current transactions, NIFA expects to terminate its swap agreements and include termination payments in its cost of issuance for the transactions.

Volatility: Low

We assess the volatility of pledged revenue at two levels: macro and micro. Our macro volatility assessment reflects an assessment of the historical volatility of the economic activity being taxed. In addition, we use the variance of national economic activity that we believe most closely represents the taxing base over multiple economic cycles.

On a micro level, although the pandemic immediately disrupted sales tax revenue, the broad economic base supports our low volatility assessment. While fluctuations could occur relative to economic cycles, absent a global public health and safety event we believe historical trends inform our view that sales tax collections will remain stable.

Linkage to the State of New York as a related entity: Close

We factored in our view of the state's creation of NIFA as a critical and autonomous oversight agency to ensure stability of Nassau County's fiscal position. Furthermore, the governor appoints NIFA's board members, including one each on the recommendation of the state senate majority leader, assembly speaker, and state comptroller, and the board's responsibilities include evaluating the reasonableness of the county's revenue and expenditure forecast as well as approving the annual budget and debt issuance plans. In addition, the state comptroller's collection of pledged revenue and distribution to the trustee for payment of debt service equals one-sixth of interest due on the succeeding semiannual interest payment date and one-12th of the amount necessary to pay annual principal payments. For these reasons, under our priority lien criteria, we consider NIFA's linkage between the priority lien pledge and the State of New York to be close.

On Dec. 11, 2020, we revised the outlook to negative from stable on the state rating, reflecting our view of heightened risks to the state's ability to maintain structural budgetary balance and effectuate planned budget reductions over the current and subsequent fiscal years. While we view the state's financial plan as reasonably achievable to maintain balance, near-term risks include potentially weaker economic growth compared to the rest of the country, uncertainty surrounding continuing federal aid, and contagion risk from financial and economic stress associated with the Metropolitan Transportation Authority and the New York City metropolitan statistical area.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020