

# RatingsDirect®

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**Summary:**

## Nassau County Sewer and Storm Water Finance Authority, New York; Miscellaneous Tax

**Primary Credit Analyst:**

Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

**Secondary Contact:**

Rahul Jain, New York + 1 (212) 438 1202; rahul.jain@spglobal.com

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## Summary:

# Nassau County Sewer and Storm Water Finance Authority, New York; Miscellaneous Tax

### Credit Profile

Nassau County Swr & Storm Wtr Fin Auth sys rev bnds

*Long Term Rating*

AAA/Stable

Affirmed, Removed from  
CreditWatch

## Rationale

S&P Global Ratings affirmed its 'AAA' long-term rating on the Nassau County Sewer and Storm Water Finance Authority (the authority), N.Y.'s series 2014A tax-exempt system revenue bonds and removed the rating from CreditWatch, where it had been placed with negative implications on April 19, 2018. The outlook is stable.

The affirmation reflects the conclusion of our review of the rating under our "GO Debt" criteria, published Oct. 12, 2006. The affirmation of the rating reflects the sizable and wealthy assessment base, largely contiguous with Nassau County's nearly \$218 billion tax base; the county's recent action to increase the assessment levy in fiscal 2018; and the authority's very low debt profile with the lack of additional borrowing planned over the long term.

The bonds are secured by a county ad valorem sewer assessment separately identified on the property tax bill and pledged to the authority. Furthermore, we believe the lockbox structure requiring sewer assessments be transferred directly to the trustee for debt service payment prior to any other operational costs of the authority or the sewer and stormwater authority provides an additional benefit to bondholders. When issued, proceeds from the series 2014 bonds refunded debt outstanding as well as provided proceeds to fund various sewer and wastewater capital projects.

The authority's bonds are eligible to be rated above the sovereign because we believe the authority 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, the authority derives all of its revenue from local sources, and has independent taxing authority as well as independent treasury management from the federal government.

The 'AAA' rating reflects our opinion of the authority's:

- Affluent service area, which consists primarily of Nassau County's sizable tax base and broad and diverse economy;
- State-created entity with operations limited to the payment of debt service; and
- Very low debt profile and lack of additional borrowing plans.

Despite affirmation of the rating, any change in the authority's plans to further leverage the assessment levy to support significant future county capital plans could lead us to revise our view of the rating. In addition, if the county's

long-term budgetary and fiscal pressures as evidenced by its 'A+' general obligation (GO) rating negatively affect the sewer and stormwater operations given the district's status as an operating entity of the county, we could revise our view of the 'AAA' rating and stable outlook and lower the rating by one or more notches.

### **Economy**

With an estimated population of 1.4 million, Nassau County is located in the New York-Newark-Jersey City MSA and has a projected per capita effective buying income of 146% of the national level and per capita market value of \$158,848. Overall, the county's full property market value grew by 4.8% over the past year to \$217.5 billion. Nassau County serves as a wealthy bedroom community as well as a diversified economic engine with extensive access to the New York City MSA through road and rail transportation networks. Development is ongoing, particularly transit-oriented housing options that are especially attractive to young professionals seeking slightly more affordable options while remaining in close proximity to Manhattan. Furthermore, high-value building permits (for market values of \$1 million or more) continue at a robust pace, equal to nearly \$318 million in 2017. In addition, the New York Islanders hockey franchise is returning to Nassau County and playing 20 games annually for three years in the Nassau Veterans Coliseum until a permanent facility is built at Belmont. In addition, the new Memorial Sloan Kettering Hospital for Cancer and Allied Diseases and the Cohen Children's Northwell Health facilities will generate jobs and retail sales activity.

IHS Markit forecasts the region's median household income to grow 2.7% in 2018, 2.6% in 2019, and more than 3.0% through 2024, and unemployment to remain below 4.0% during the same period. However, as we discuss in our report "U.S. Tax Reform: Local Government Issuers In The New York Tristate Region Could Be Stressed" (published Dec. 5, 2017 on RatingsDirect), federal tax reform efforts could pose a risk to the county's economy. Despite this risk, we believe Nassau County's economy will remain very strong over the outlook period, especially with New York State decoupling from the federal government and with the ancillary effects of tax reform largely unknown.

### **Operations are limited to payment of debt service**

The state legislature created the authority in 2003 under the Public Authorities Law with the specific and limited objective of refinancing sewer and stormwater debt outstanding issued by or on behalf of Nassau County and financing future sewer and stormwater projects. The authority employs no personnel and may not hire any, as the county (not the authority) is statutorily required to provide sewerage and storm water services.

Despite the limited nature of the authority's operations, the sewer and stormwater district's available reserves (identified as assigned fund balance and represented in the county's comprehensive annual financial report) at fiscal year-end 2017 approximated \$24 million, or about 22% of operations, funded out of the sewer and stormwater fund, a level we view as strong. Furthermore, in fiscal 2017 the sewer and stormwater district contained about 83 days of liquidity, a level we believe is adequate. The district's liquidity declined over the past three fiscal years as the county's prior administration pursued full privatization of the sewer and stormwater district and determined less liquidity was required on the district's balance sheet. The county's management team does not anticipate drawing reserves below \$20 million. We understand that SUEZ Water Long Island Inc. (Suez) has a contract with Nassau County through 2034 to operate and maintain the county's wastewater system, providing support in renewing applicable discharge permits on behalf of the system, which somewhat limits operating risk to the county.

The 2018 budget totals \$132.6 million, a 7.9% increase from the previous year. The increase largely reflects a rise in property tax assessments to nearly \$125 million plus \$7.8 million in payments-in-lieu-of-taxes (up from \$115 million plus \$7.8 million in PILOTs the prior year) as well as an 8.2% increase in the transfer out for payment of operating expenses, including debt service on the county bonds, to \$114.2 million (up from about \$106 million the prior year). County officials annually revisit the assessment levy to ensure it provides sufficient funding to meet the district's operational costs after payment of debt service. The adopted fiscal 2018 budget is balanced, reflecting a positive change from audited results in fiscal years 2016 and 2017, when the authority posted modest deficits of about \$181,000 and \$263,000, respectively, as larger transfers were made to support district operations given a decline in required debt service payments.

### **Lockbox legal structure provides benefit to bondholders**

Tax receivers in each tax-collecting jurisdiction (two cities and three towns) collect and distribute the assessments directly to the trustee. The sewer and stormwater assessments appear as separate line items on property tax bills and are required to be held in a segregated account while in the possession of the tax collectors. If any assessments remain unpaid at the time required for their transfer to the authority, the county has directed the tax collectors to pay the amounts to the trustee with the county making up any unpaid assessments, thereby guaranteeing 100% collections. Pursuant to the resolution and the timing of property tax billing and collections, debt service requirements (principal and interest due Oct. 1 and interest due April 1) are fully funded at least six months in advance of payment. Following payment of debt service and any other limited operating costs of the authority, the county uses excess sewer assessments to support sewer district operating expenditures and debt service on county GO bonds issued for sewer purposes.

### **Financial policies and practices**

The authority is a covered organization under the statute governing the Nassau County Interim Finance Authority (NIFA). In June 2000, the state legislature created NIFA--an independent oversight authority with control powers, including the ability to approve the county's multiyear financial plan. Given the authority's limited operations with sewer and stormwater operations overseen by the county, we believe the authority receives the same oversight advantages from NIFA afforded the county. Furthermore, although the authority is a legally separate entity from the county, we believe much of the same policies and practices that the county utilizes--including robust capital planning, monthly review of budget-to-actual results by elected officials, and maintenance of adequate reserves according to stated policies--benefit the authority.

### **Debt and liabilities profile**

The district's overall debt burden is very low at \$98 per capita and about 0.1% of market value. From the 2014A bonds, about \$134 million remains outstanding, which is retired at a rapid 79% in 10 years with final maturity in 2034. Under New York's public authorities law, the authority can issue as much as \$350 million of debt to finance and refinance sewer and stormwater projects as revenue bonds. The authority has approximately \$130 million in remaining debt capacity to finance capital projects but any future debt issuance is uncertain with unknown timing. Officials would likely finance future capital needs of the sewer and stormwater system through GO-backed bonds issued by the county.

Given the authority's lack of personnel and inability to hire, the authority's financial statements do not carry long-term

liabilities for pension and retiree benefits. County employees in the department of public works oversee sewer and stormwater operations and pension and retiree benefits for these employees are reported in the county's audited financial statements. The county participates in the New York State and Local Employees' Retirement System (ERS) and Police and Fire Retirement System (NYSPFRS), which were about 94.7% and 93.5% funded, respectively, as of March 31, 2017, based on Governmental Accounting Standards Board Statement Nos. 67 and 68 reporting for pension assets and liabilities. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable given the rate is slightly more conservative than the national average. Contribution rates as a share of payroll remain relatively flat year over year.

We believe the county's long-term liability profile does not negatively affect the authority's operations, but we note the county's annual carrying charge for these obligations was somewhat high in fiscal 2017 (totaling about 11% of adjusted total governmental). The county made 100% of its annual required pension contribution in 2017 (\$166.5 million). In addition, The county provides nonpension other postemployment benefits (OPEBs) to eligible employees. As of Jan. 1, 2017, its net OPEB obligation was approximately \$6.4 billion, which includes the county and an allocation of NHCC, NIFA, Nassau Community College, and Nassau Regional Off-Track Betting Corp. costs. In 2017, the county expended approximately \$169 million to pay for OPEBs. Nassau County is not required to provide funding for OPEBs other than the pay-as-you-go amount necessary for current benefits. We also view the state's prohibition on prefunding these obligations through designated trust funds as a disadvantage for local governments throughout New York State.

## Outlook

The stable outlook reflects S&P Global Ratings' expectation that the assessment base, largely contiguous with the county's substantial tax base, will remain economically vibrant and sufficient to generate assessments well in excess of debt service. The stable outlook is also predicated on management's representation that identified capital expenditures are limited to renewals and replacements and will not be debt funded while Suez as the operator of the sewer treatment facilities will maintain the system to a level of full compliance with applicable environmental requirements. Any change in the authority's plans to further leverage the assessment levy to support significant future county capital plans could lead us to revise our view of the rating. In addition, if the county's long-term budgetary and fiscal pressures as evidenced by its 'A+' GO rating negatively affect the sewer and stormwater operations given the district's status as an operating entity of the county, we could revise our view of the 'AAA' rating and stable outlook and lower the rating by one or more notches.

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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