S&P Global
Ratings

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Summary:

Nassau County, New York; General Obligation

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Summary:

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Credit Profile		
US$245.4 mil gen imp bnds ser 2024A dtd 06/05/2024 due 04/01/2054		
Long Term Rating	AA-/Positive	New
Nassau Cnty GO		
Long Term Rating	AA-/Positive	Outlook Revised
Nassau Cnty GO		
Long Term Rating	AA-/Positive	Outlook Revised
Nassau Cnty GO		
Long Term Rating	AA-/Positive	Outlook Revised

Credit Highlights

- S&P Global Ratings revised its outlook to positive from stable and affirmed its 'AA-' long-term rating and underlying rating (SPUR) on Nassau County, N.Y.'s general obligation (GO) bonds outstanding.
- At the same time, S&P Global Ratings assigned its 'AA-' long-term rating, with a positive outlook, to Nassau County's 2024 general improvement bonds, 2024 series A.
- The outlook revision reflects our view of a one-three chance of an upgrade if the county can continue to demonstrate strong finances and proactive budgetary management despite signs of an economy slowdown. Following several years of strong financial performance, it has built its reserves to very strong levels, buttressing itself against its financial vulnerabilities. In addition to improving reserves, the county has also done very well lowering its tax refund and legal liabilities by $553 million, or 42% since 2021, thereby boosting its financial flexibility.

Security

The county's faith and credit--including the statutory authorization to levy ad valorem taxes on all real property within its borders, subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on a municipality's ability to annually increase the real property tax levy--secures debt service on the 2023 bonds as well as the GO debt outstanding.

Proceeds from series 2024A bonds will fund various capital projects throughout the county.

Credit overview

Nassau County's financial position continues to strengthen through reserve growth and the elimination of a significant portion of its outstanding liabilities. In total, general fund balances remain very strong at the close of fiscal 2023 with more than $887 million in total reserves, positioning the county over the next couple of years to cope with economic headwinds stemming from inflation and high mortgage interest rates (which are tempering housing demand and mortgage recording taxes).

Despite a substantially stronger financial position, the current economic environment poses a challenge and may constrain upward rating movement should performance and reserves unexpectedly weaken. We highlight that departmental receipts are coming in weaker due to the softened real estate environment and county's costs continue to increase. Additionally, sales taxes, which continue to outperform expectations, are the largest revenue source, and are at risk of slowing, although we note that Nassau County will host the Cricket World Cup, which should support higher taxes through 2024. Over the next two years, a positive rating action will hinge on the county's progress in managing costs relating to its sizable long-term liabilities while maintaining steady operations, strong reserves, and good financial management practices.

For additional information on S&P Global Ratings' view of the economy, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect.

Additional rating factors include our view of the county's:

- Diverse wealthy economy with a robust economic base, very high household incomes, and proximity to New York City;
- Improved financial management practices (historically hampered by political gridlock) and a strong institutional framework score;
- Consecutive years of positive operations supported by robust sales tax performance which has significantly improved reserves and liquidity, and has allowed management to address its backlog of tax appeals; and
- Manageable fixed debt burden, though with an outsized other postemployment benefit (OPEB) liability for U.S. counties equal to $6.5 billion, and state statutes do not provide a mechanism for local governments to prefund the obligation.

Environmental, social, and governance

The county's location on Long Island exposes its tax base to physical risks from extreme weather that could disrupt revenue collections in the event of a significant acute event like a hurricane or instances of chronic flooding following substantial rainfall. We view these risks similarly for many Long Island communities and believe county and regional planning efforts and adaptation infrastructure projects somewhat mitigate our near-term credit concerns. We incorporate countervailing governance structure aspects into our rating analysis. We think the statutory framework providing for the Nassau County Interim Finance Authority (NIFA) is positive. However, the inability of New York local governments to prefund their OPEB liabilities is a weakness for the portfolio. We view the county's social risks as neutral within our credit rating analysis.

Outlook

The positive outlook reflects the county's recent robust operating performance, leading to a substantially improved financial and liquidity position. This is the result of budgetary policies designed to achieve long-term structural balance, along with the county's commitment to improving reserves.

Downside scenario

We could lower the rating if the recent positive results reverse course or if management is unable to maintain budgetary balance, particularly after exhausting its federal fiscal stimulus funds.

Upside scenario

We could raise the rating if the county can sustain its recent improvement in budgetary performance and reserve growth to an extent that sufficiently offsets the long-term liability profile.

Credit Opinion

Robust economic base and proximity to New York City provide credit rating stability

With its proximity to New York City and major employment centers in surrounding Suffolk and Westchester counties as well as Fairfield County, Conn., Nassau County serves as a wealthy bedroom community as well as a diversified economic engine with extensive access to the New York City metropolitan area through road and rail transportation networks. The county maintains a steady mix of employers, including Memorial Sloan Kettering Hospital for Cancer and Allied Diseases and the Cohen Children's Northwell Health facilities. The largest economic development initiative includes the proposed $6 billion Sands Casino development, that despite some legal hurdles, remains a priority for officials and would provide a significant boost to economic activity.

Substantial sales tax revenue growth and expenditure controls underscore positive operating results; higher liquidity and financial reserves negate cash-flow borrowing requirements.

Our financial analysis combines the county's general, NIFA, and police district funds into a net operating fund to calculate performance and reserves. Results also reflect NIFA debt service payments, recurring transfers, and the removal of expenditures related to capital projects, tax certiorari, and judgments and settlements paid from bond proceeds. Major operating revenue includes sales (about 45%) and property (22%) taxes based on fiscal year-end 2023 revenue projections.

For fiscal 2023, the office of management and business (OMB) projects a surplus of $240.6 million in the general fund, buoyed by strong sales taxes collections, and lower-than-budgeted expenses, particularly in salaries and benefits. As has been the case, the county used its surplus to improve dedicated reserves to mitigate against ongoing tax certiorari appeals, retirement and health care contributions, and employee benefits, and again paid down outstanding liabilities.

The county no longer has any outstanding pension deferrals, and has lowered its tax certiorari and general legal liabilities by an aggregate $553 million, or 42%, since 2021. Management's focus on expenditure controls and implementation of recurring balancing solutions to cover annual tax certiorari claims with current-year revenue is an important management initiative illustrating that maintaining structural balance is the clear goal.

The fiscal 2024 adopted budget totals $4.1 billion and reflects the effects of collective bargaining approved by the county legislature in the fall of 2023. The budget also provides for the increased costs relating to early intervention and pre-school special education. Fiscal 2024 sales tax collections (prior to NIFA set-asides) are estimated at $1.615 billion, slightly above fiscal 2023 actual receipts. Should sales tax revenue trends continue (as of the first quarter, they are about 5.6% ahead of projections), we believe operating results could show another surplus at year-end. Property taxes are the second-largest revenue source for the county and collections remain solid.

Prior to 2022, the county needed to issued tax and revenue anticipation notes for cash-flow purposes. However, due to the strong cash balances and liquidity, cash-flow borrowing will be unnecessary in fiscal 2024 and unlikely in fiscal 2025. Cash management practices are sound, and notably, Nassau County terminated its interest rate swap agreements associated with NHCC's and NIFA's debt obligations in fiscal 2021, substantially de-risking the liquidity and debt profile.

Management's relationships with key stakeholders improving

Previously, political gridlock with the county legislature, collective-bargaining units, underlying municipalities, and NIFA tempered management strengths. We believe these relationships with key stakeholders, particularly with the collective-bargaining units and NIFA, have recently improved, as is evident in the county's ability to settle several labor contracts outstanding and enlist NIFA's assistance to help close budget gaps and restructure debt.

In June 2000, the state legislature created NIFA, an independent oversight authority with additional powers during a control period, including the ability to approve the county's multiyear financial plan. In our opinion, the county has done well in instituting improved budgetary practices, and ongoing NIFA oversight of the budget, a long-term financial plan, and debt issuance continue to support the financial management assessment (FMA). Nassau County maintains a four-year financial plan approved by NIFA, a robust four-year capital plan that includes funding sources and uses, and monthly reports on budget-to-actual results to elected officials and NIFA. Although it maintains a comprehensive debt management policy, the county views several indicators as targets rather than as hard caps. It also has an investment policy with holdings included in the annual comprehensive financial report. It maintains a fund balance target of no less than 4% and no more than 5% of prior-year expenditures on a budgetary basis in the general fund and countywide special revenue funds.

The institutional framework score for New York counties is strong.

Debt service costs are manageable, but OPEB liability remains a potential credit rating constraint

The county's long-term debt outstanding (including GO bonds, sewer and stormwater bonds, and bonds issued through the state's environmental facilities corporation) as well as NIFA debt totaled approximately $3.1 billion. It regularly evaluates its capital plan, and we anticipate annual borrowing consistent with the current transaction. The county's exposure to additional litigation, tax certiorari, judgments, and claims, and its NHCC debt guarantee creates some speculative contingent liability risk. But with the litigation reserve created with the surplus and as the county continues eliminating and paying tax certiorari claims, we believe this risk is subsiding.

Pension and OPEB liabilities

- In our opinion, the county's large OPEB obligation equal to $6.8 billion as of Dec. 31, 2022, could constrain further upward rating movement.
- The county is unable to prefund the obligation because of state statutes, which given its already high fixed costs could create future budgetary pressures as those costs increase, and during periods when revenue may be under pressure.

Nassau County participates in the following state-administered pension plans:

- New York State Employees' Retirement System, fully funded as of the March 31, 2022 measurement date; and
- New York State & Local Police & Fire Retirement System, funded at 98.7% with the county's share of the net pension liability equal to about $49.6 million as of the March 31, 2022 measurement date.

The New York State pension plans are well funded, and the discount rate is a conservative 5.9%. The county has paid off all its pension deferrals and its current payments regularly exceed minimum and static funding progress. These actions support our view that pension contributions are not the primary source of fiscal pressure for long-term liabilities.

We view the county's net liability associated with its OPEB requirement as creating fiscal pressure over the long term. OPEBs are provided through a single-employer, defined-benefit plan. Although the county executive and legislature retain the right to establish and modify benefits, the state does not uniformly allow for the prefunding of this liability, leaving the county's financial position at risk should costs grow relative to retirement and health care trends.

Nassau County, NY -- Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	149			
Market value per capita ($)	197,718			
Population		1,416,398	1,357,196	1,359,898
County unemployment rate(%)		2.9		
Market value ($000)	280,046,851	226,654,224	211,662,461	248,424,030
Ten largest taxpayers % of taxable value	13.8			
Strong budgetary performance				
Operating fund result % of expenditures		8.9	18.4	3.5
Total governmental fund result % of expenditures		12.4	12.7	0.5
Strong budgetary flexibility				
Available reserves % of operating expenditures		11.5	9.5	8.9
Total available reserves ($000)		361,778	277,270	260,666
Very strong liquidity				
Total government cash % of governmental fund expenditures		24	25	9
Total government cash % of governmental fund debt service		380	455	95
Adequate management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.4	5.4	9.8
Net direct debt % of governmental fund revenue	94			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	51			

Nassau County, NY -- Key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Required pension contribution % of governmental fund expenditures		4.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 21, 2024)		
Nassau Cnty GO		
Long Term Rating	AA-/Positive	Outlook Revised
Unenhanced Rating	NR(SPUR)	
Nassau Cnty GO		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
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Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised

Ratings Detail (As Of May 21, 2024) (cont.)		
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (AGM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
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Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised

Ratings Detail (As Of May 21, 2024) (cont.)		
Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SECMKT)		
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Nassau Cnty GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Cnty GO (BAM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau County GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Outlook Revised
Nassau Health Care Corp., New York		
Nassau County, New York		
Nassau Hlth Care Corp (Nassau Cnty) GO		
Long Term Rating	AA-/Positive	Outlook Revised

Many issues are enhanced by bond insurance.

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.