FitchRatings

FITCH AFFIRMS ULSTER COUNTY, NY'S GO PUBLIC IMPROVEMENT BONDS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-26 February 2014: Fitch Ratings affirms the following Ulster County, NY (the County) public improvement bonds (PIBs):

--Approximately $57.7 million, series 1999, 2005A, 2006 and 2012 at 'AA-'.

The Rating Outlook is Stable.

SECURITY

The series 2012 bonds are secured by the county's full faith and credit and taxing power, subject to a 2011 state statute limiting property tax increases to the lesser of 2% or an inflation factor (tax cap law). This limit can be overridden by a 60% vote of the county legislature.

The county has pledged its full faith and credit and unlimited taxing power for debt service on outstanding general obligation (GO) bonds issued prior to 2011. No exemption is made under the tax cap law for debt service on outstanding GO debt; however, the constitutionality of this provision has not been tested.

KEY RATING DRIVERS

FAVORABLE ECONOMIC PROFILE: The county benefits from its proximity to the New York City metropolitan region and Albany, a growing population, and a stable economic base centered on tourism, the State University of New York (SUNY) New Paltz and agriculture.

STABLE FINANCIAL OPERATIONS: Management is financially conservative, proactively reducing expenditures over the last several years. Fitch expects the county's financial profile to remain sound with adequate reserve levels despite budgeted use of fund balance.

REDUCTION IN CONTINGENT LIABILITIES: Fitch views favorably the sale of the county-owned nursing home and the implementation of a flow-control law for the resource recovery agency, both of which will reduce general fund subsidies and increase financial flexibility.

FAVORABLE LONG-TERM LIABILITY POSITION: The county's overall debt burden is low and is expected to decline due to limited capital plans and above-average debt amortization. Pension and other post-employment benefits (OPEB) are manageable.

RATING SENSITIVITIES

CHANGES IN FINANCIAL OPERATIONS: Fitch expects management to continue its prudent financial practices including the maintenance of adequate reserve levels. A trend in surplus operations in combination with stable to increasing reserves could result in a Positive Outlook or rating upgrade.

CREDIT PROFILE
Ulster County is located in the east central portion of the state in the Catskill region, approximately 90 miles from New York City and Albany. The 2010 Census reported population of 182,493, a 2.7% increase from the 2000 Census.

DIVERSE ECONOMIC BASE

The county economy is fairly diverse with a strong and growing tourism sector. The county is home to Woodstock, a large art and cultural center, and the Catskill and Shawangunk Mountains which provide recreational activities year around. Agriculture is also an integral component of the economy. The county is the state's largest producer of fresh market apples and sweet corn. In addition, horse breeding has become a sizable industry with over 50 horse facilities, 10 of which are used for breeding race horses. New York State is a major employer, providing economic stability. The State Correctional Department operates four major detention facilities in the county employing approximately 1,745 workers. Additionally, the State University at New Paltz, with approximately 8,000 students employs 1,500 persons.

The county's unemployment rate historically has been below state and U.S. rates but increased slightly in 2012 and 2013. In November 2013 the county recorded an unemployment rate of 6.8% compared to 6.9% and 6.6% for the state and U.S., respectively. Although lower than the 8.1% recorded in November 2012,the improvement year over year was due to a slight (0.3%) growth in employment outpacing a contraction (-1.1%) in the labor force.

STABLE FINANCIAL OPERATIONS

Sales tax is the largest source of general fund revenue, at 35% in 2012. In 2012, general fund sales tax revenues increased by 2.6% over 2011 and were 3.4% above budget. Property taxes provide the second largest general fund revenue source at 23%. The property tax base is diverse with the top 10 taxpayers making up 13.9% of taxable value. The largest payer is the city of New York, for properties associated with the watershed, which Fitch expects to be highly stable. The tax base has been fairly steady over the last few years, benefiting from a relatively stable housing sector.

Prudent financial practices including proactive management of expenses and conservative budgeting have produced stable financial operations and reserve levels. Management absorbed higher fixed costs in 2012 through operational efficiencies via the elimination of 23 positions and the restructuring of Mental Health Services which combined saved approximately $2.5 million.

With the exception of a small operating deficit after transfers in 2009 due to the recession, the county has achieved general fund operating surpluses after transfers in every audited year since 2006. Positive results continued in 2012, driven primarily by strong sales tax growth and lower than budgeted expenses. As in the past, the county conservatively budgeted for use of fund balance but none was required to balance operations. At year-end Dec. 31 the county recorded a small general fund surplus (0.06% of general fund spending). The unrestricted (sum of committed, assigned and unassigned) general fund balance totaled $35.6 million or an adequate 11.9% of general fund spending.

PROJECTED USE OF FUND BALANCE IN 2013

The county's 2013 budget includes a $10 million use of general fund balance. Based on management's conservative current projections, approximately $7 million will be utilized. The positive budget variance is primarily due to favorable sales tax revenue and cost savings from attrition and purchasing reductions. However, sales tax revenue will be negatively affected because of a setback in the state legislative process. The two-year renewal of the county's 1% additional sales tax, which is usually uncontroversial, expired Nov.30, 2013, costing the county approximately $2 million in sales tax receipts for the month of December and a like amount in January 2014. The tax was reinstated as of Feb. 1, 2014. Additionally, some budgeted revenues, primarily from the sale of county-owned property, did not materialize. This loss was offset by $6 million in proceeds from the sale of the nursing home that were not included in the 2013 budget.

CONTINGENT LIABILITIES REDUCED IN 2013

Fitch views positively the June 2013 sale of the county-owned nursing home (the Golden Hill Health Center), as it significantly reduces future liabilities. The nursing home operated at a deficit, receiving subsidies from the county general fund ($8.9 million budgeted in 2013). Of the $11 million the county received from the sale, $900,000 is reserved to pay down the remaining hospital debt, the general fund will receive approximately $6 million and the remaining $4 million will offset the county contribution the general fund will make to the enterprise fund for operations.

On another positive note, starting in 2013 the county will no longer pay an annual net service fee (approximately $2.5 million) to the county's resource recovery agency. In late 2012 the county approved a new flow-control law which enables the agency to collect increased revenues that will cover the agency's operations and debt service costs.

2014 BUDGET ASSUMPTIONS INCLUDE USE OF FUND BALANCE

The 2014 $285 million general fund budget is a 1.4% reduction from the 2013 adopted budget and includes $13.2 million in appropriations from the general fund. For the third consecutive year, the property tax levy is flat. Based on past results, Fitch believes these assumptions are conservative and management will use less than budgeted fund balance and maintain adequate reserve levels.

MANAGEABLE DEBT AND PENSION COSTS

The county's credit profile benefits from low overall debt, modest future borrowing and a well-funded state pension plan. Overall debt is modest at $1,379 per capita and 1.4% of market value. Fitch expects debt levels to decrease given above-average amortization and modest future capital plans. The 2014-2018 capital improvement plan anticipates $75.5 million of expenditures, focused on public health and safety, education, culture and recreation and general government, the majority to be funded by state and federal contributions.

The county participates in the New York State and Local Employees Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan. As of March 31, 2012, ERS was well-funded at 90%, or about 86% assuming a 7% return. The county contributes the full amount of its required contribution annually, equal to approximately 5.3% of government fund spending for 2012. The county has not participated in the pension-smoothing option provided by the state, which Fitch views positively.

Pension payments have increased substantially over the last few years and are budgeted for $18.3 million in 2014, an 8.3% increase from the 2013 payment. Statewide increases should level off in 2015 and management expects costs may be offset to some degree by the loss of 300 nursing home employees.

The county currently funds its OPEB liability on a pay-go basis and will continue to do so as there is no authority under present state law to establish a trust account or reserve fund for this liability. As of Dec. 31, 2012, the county's OPEB liability totalled $160.2 million or a modest 0.9% of market value. Total carrying costs, inclusive of debt service and pension and OPEB costs, equalled a low 11.2% of spending in 2012.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, CoreLogic Case-Shiller Index, IHS Global Insight, Zillow.com and, National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314