

RatingsDirect®

Summary:

Ulster County, New York; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$7.862 mil pub imp serial bnds ser 2017 dtd 11/21/2017 due 11/15/2028

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Ulster County, N.Y.'s series 2017 public improvement bonds. At the same time, we affirmed our 'AA' long-term rating on the county's GO bonds outstanding and our 'AA-' long-term rating on the Ulster County Resource Recovery Agency's solid waste system revenue bonds, based on the county's appropriation pledge. The outlook is stable.

The county's faith and credit secures the series 2017 bonds, including the statutory authorization to levy ad valorem taxes on all real property in the county, subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on the ability of local governments to increase the real property tax levy year over year.

We understand bond proceeds will provide the take-out financing for previously issued bond anticipation notes (together with approximately \$862,000 of available funds) that mature on Nov. 22, 2017. The notes provided interim funding for various infrastructure improvement projects throughout the county.

The county's appropriation debt outstanding is a special obligation secured by net revenue from the solid waste system's operations and net service fees from Ulster County pursuant to the service agreement. The county's obligation to make net service fee payments to the agency is absolute and unconditional, as long as the agency provides waste disposal services. The amount of the service fee is generally the amount by which the agency's expenses (including debt service) exceed system revenue. Net system revenue has historically been insufficient to cover operations and debt service. The payments are due annually, 10 days before the March 1 interest payment date. The appropriation debt is rated one notch below the county's full faith and credit pledge, based on the contingent risk associated with the appropriation of funds.

The rating reflects our view of the county's:

- Adequate economy, with market value per capita of \$101,201 and projected per capita effective buying income (EBI) at 105.8% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the general fund and at the total governmental fund level in fiscal 2016;

- Strong budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2016 level of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.7% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 32.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 75.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Ulster County's economy adequate. The county has an estimated population of 179,611. The county has a projected per capita EBI of 105.8% of the national level and per capita market value of \$101,201. Overall, the county's market value grew by 0.9% over the past year to \$18.2 billion in 2018. The county unemployment rate was 4.4% in 2016.

Located in the east central portion of the state between New York City and Albany, Kingston serves as the county seat and is situated along the Hudson River. With the close proximity to New York City and the Catskill Mountains, the county's economy benefits from a strong tourism component. Visitors travel into the county for recreational purposes, including hiking and hunting, gaming activities at a nearby casino facility in Sullivan County, and several large festivals that occur throughout the year, including the Woodstock Film Festival in October. Information from 2015 (the latest available) indicates visitor spending was \$533 million, an increase over the prior year. Tourism has driven hotel development, renovation, and upgrades to various resorts and spas, including a large property in Kingston. Other development includes ongoing housing construction as well as retail service and restaurant expansion to serve the large tourism industry.

Despite the potential cyclicity associated with tourism, we believe economic stability is provided by other large employment sectors, including county and state government, health care, and higher education. We believe the county's economy will experience ongoing, incremental growth given the development underway and planned over the long term.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The legislature's staff maintains real-time access to the county's financial systems to regularly produce budget-to-actual comparisons, book balances, and inquiries on interest earnings. The legislature and its audit and ways and means committees convene monthly to discuss the county's finances and, when necessary, adjust and amend the budget. When preparing the budget and forecasting revenue and expenditures, officials utilize historical information as well as outside sources, but they give more weight to recent results and known programmatic and contractual modifications.

Despite the lack of a long-term financial plan, the county annually updates a six-year, rolling capital improvement plan developed with guidance from several departments and identifies funding sources and uses. Furthermore, the county

maintains a formal investment management policy and an informal reserve policy under which unassigned funds are equal to a minimum 5% of expenditures.

Strong budgetary performance

Ulster County's budgetary performance is strong, in our opinion. The county had balanced operating results of 0.3% of expenditures in the general fund and of 0.5% across all governmental funds in fiscal 2016.

We've adjusted the county's operating results for consideration of capital spending from bond proceeds, sales tax distribution to municipalities within the county, and one-time revenue received in fiscal 2016.

Following budgetary deficits in the general fund in fiscal years 2014 and 2015, when the county appropriated amounts for capital spending and property tax relief, audited results show a modest surplus of \$884,000 (0.3% of expenditures) in fiscal 2016 after removal of a one-time payment of \$4 million received from the state for previous social services expenditures. We note that fiscal 2016 results were a significant improvement over preliminary estimates of a year-end \$7 million use of fund balance. Officials report that favorable audited results stemmed from revenue trending 1.2% in excess of budget, primarily from higher sales tax collections, which were \$2.1 million over estimates and contributed the largest portion of operating revenue at 41.0%. In addition, fiscal 2016 expenditures were \$20 million (6.9%) below budget, as the county has contained costs through personnel attrition and other strategies.

Fiscal 2017 year-to-date results are trending favorably as well, with expected year-end results requiring only an approximately \$2.5 million to \$3.0 million draw on reserves. This amount compares to the budgeted estimate of \$16.3 million. Sales tax revenue is up 3.5% over the prior year, while occupancy taxes are higher by 7.0%. The fiscal 2018 executive budget includes a \$12.7 million use of fund balance, substantially less than in prior years.

One risk to the county's budget performance is potential changes in the Affordable Care Act (ACA) at the federal level, which could affect the county's share of Medicaid expenditures and support for these costs by the state. Although we will continue to monitor changes to the ACA, we believe the county's conservative budgeting practices and historical budget-to-actual positive variances will support at least adequate budgetary performance in the near term.

Strong budgetary flexibility

Ulster County's budgetary flexibility is strong, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2016 level of 18% of operating expenditures, or \$45.9 million.

The county's fund balance benefited in fiscal 2013 from the closure of its nursing home. After the sale, the county planned for drawdowns in the reserve for capital spending and tax relief purposes. Despite a previous expectation that the unassigned fund balance would decline closer to the target of 5.0% of operating expenditures, fiscal 2016 ended with an unassigned balance of \$25.5 million (9.4% of expenditures) a level we consider strong.

We note that officials report that fiscal 2017 preliminary estimates may require a \$2.5 million to \$3.0 million draw on reserves at year end, while the fiscal 2018 executive budget includes a \$12.7 million appropriation of fund balance. Historically, the county's year-end operations require substantially less reserves, and as a result we expect the county's financial flexibility to remain strong over the long term.

Very strong liquidity

In our opinion, Ulster County's liquidity is very strong, with total government available cash at 19.7% of total governmental fund expenditures and 4.4x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

We believe the county's liquidity position benefits from its strong access to external liquidity, as evidenced by its regular debt issuance over the past 20 years. The county's operating cash is invested primarily in bank deposits, which we do not consider aggressive. The county abstains from variable-rate and direct purchase obligations, and we view this favorably. Given the county's cash levels and access to external liquidity, we do not anticipate that the county's liquidity will deteriorate over the near term.

Very strong debt and contingent liability profile

In our view, Ulster County's debt and contingent liability profile is very strong. Total governmental fund debt service is 4.5% of total governmental fund expenditures, and net direct debt is 32.9% of total governmental fund revenue. Overall net debt is low at 1.3% of market value, and approximately 75.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Despite a planned \$10 million issuance to fund renovations to a family court facility in the next 12 to 24 months, we do not believe the additional debt will materially affect the county's very strong debt profile given the rapid retirement of principal and low overall net debt as a percentage of market value. We expect the county to continue using short-term bond anticipation notes to initiate capital projects, which will be taken out with long-term debt once projects reach the construction phase.

Ulster County's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.4% of total governmental fund expenditures in 2016, with 4.3% representing required contributions to pension obligations and 1.2% representing OPEB payments. The county made its full annual required pension contribution in 2016.

The county's employees are covered under the New York State and Local Employees Retirement System. Based on the most recent measurement date of March 31, 2016, the plan was funded at 90.7% based on the fiduciary net position as a percentage of total pension liability. The county's net proportionate share of the liability as of Dec. 31, 2016 was nearly \$50 million. The county has historically made 100% of its annual required pension contributions, which totaled about \$12.9 million in fiscal 2016. In addition, the county did not elect to and does not plan to defer and amortize any of its pension contributions.

The county provides OPEB on a pay-as-you-go basis and contributed about \$3.5 million, or about 28% of the annual required contribution, to the plan in fiscal 2016. The plan carries an unfunded actuarial liability of about \$128 million.

Strong institutional framework

The institutional framework score for New York counties is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that the county will maintain improved budgetary performance supporting its strong financial flexibility and liquidity profile. In addition, we believe the county's ongoing improvement in its economic indicators and proximity to New York City will provide rating stability over the outlook period. Consequently, we do not anticipate changing the rating over the next two years.

Downward scenario

We could lower the rating if budgetary performance were to deteriorate beyond expectations, thereby reducing reserves to a level we consider inconsistent with similarly rated peers.

Upward scenario

A positive rating action could follow sustained improvement in budgetary performance leading to maintenance of very strong reserves as well as ongoing economic diversification supporting better wealth and income indicators.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 26, 2017)		
Ulster Cnty pub imp bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ulster County pub imp bnds ser 2016B		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ulster Cnty GO		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<i>Long Term Rating</i>	AA/Stable	Affirmed
Ulster Cnty Res Recov Agy, New York		
Ulster Cnty, New York		
Ulster Cnty Res Recov Agy (Ulster Cnty) rev bnds (Ulster Cnty)		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Ulster Cnty Res Recov Agy (Ulster Cnty) solid waste sys rev rfdg bnds		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Ulster Cnty Res Recov Agy (Ulster Cnty) solid waste sys rev rfdg bnds ser 2002 due 03/01/2005-2025		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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