



**RATING ACTION COMMENTARY**

**Fitch Upgrades Monroe County, NY's IDR, GOs to 'AA'; Outlook Stable**

Fri 08 Nov, 2024 - 3:50 PM ET

Fitch Ratings - New York - 08 Nov 2024: Fitch Ratings has upgraded the following Monroe County, NY ratings to 'AA' from 'AA-':

--Issuer Default Rating (IDR);

--Outstanding limited tax general obligation (LTGO) bonds.

The Rating Outlook is Stable.

**RATING ACTIONS**

ENTITY / DEBT ↕	RATING ↕		PRIOR ↕
Monroe County (NY) [General Government]	LT IDR	AA Rating Outlook Stable	AA- Rating Outlook Stable
	Upgrade		
Monroe County (NY) /General Obligation - Limited Tax/1 LT	LT	AA Rating Outlook Stable	AA- Rating Outlook Stable
	Upgrade		

**[VIEW ADDITIONAL RATING DETAILS](#)**

The one-notch upgrade of Monroe County's IDR and GO bond ratings to 'AA' reflects improved general fund reserves and incorporates Fitch's new U.S. Public Finance Local

Government Rating Criteria. The rating reflects the county's financial resilience assessment of 'a' supported by 'High-Midrange' budgetary flexibility and Fitch's expectation that unrestricted general fund reserves (sum of committed, assigned and unassigned) will be maintained at least equal to or above 5% of general fund spending.

The county had a pre-pandemic history of maintenance of unrestricted fund balance levels at or below 3% of spending, but reserves have since improved with unrestricted levels at 25% of spending for 2023. However, management has appropriated fund balance to support the 2024 budget. Notably, in 2023 the county implemented a minimum 10% policy of the subsequent years operating budget, which formally prioritizes the maintenance of fund balance at higher than historical levels.

The county's long-term liability (LTL) burden associated with direct debt and net pension liabilities is assessed at 'Strongest', reflecting the county's large resource base. These metrics are counterbalanced by the county's 'Midrange' level demographic and economic metrics relative to Fitch's local government ratings portfolio. These metrics include unemployment rate as a percent of the nation, residents' educational attainment, and median household income.

The population trend is assessed at 'Weakest', reflecting a flat to marginally declining population. The county's sizeable population and diverse economy is assessed as 'Strongest' relative to Fitch's local government ratings portfolio, reflecting a mix of government, health and education, manufacturing employers.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

--Negative rating action could occur due to a decline in unrestricted general fund reserves sustained at below 5% of spending, which would lower Fitch's assessment of financial resilience to below 'a';

--A material and sustained weakness in the county's demographic and economic metrics;

--A material increase in long-term liabilities and carrying costs without a commensurate increase in the resource base and government spending.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

--Fitch's expectation for unrestricted general fund reserve levels to be maintained at or above 7.5% of spending, which would increase Fitch's assessment of financial resilience to above 'a';

--A sustained improvement in demographic and economic metrics, particularly related to population and median household income;

--An 85% decrease in long-term liabilities or commensurate increase in personal income of governmental resources.

## **SECURITY**

The LTGO bonds are general obligations of the county for which the county has pledged its full faith and credit and ad valorem taxing power, subject to a 2011 state statute that limits annual property tax increases to the lesser of 2% or an inflation factor (the tax cap law). This limit can be overridden annually by a 60% vote of the county's governing body.

## **FITCH'S LOCAL GOVERNMENT RATING MODEL**

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

## **RATINGS HEADROOM & POSITIONING**

Monroe County Model Implied Rating: 'AA' (Numerical Value: 8.78)

-- Metric Profile: 'AA' (Numerical Value: 8.78)

-- Net Additional Analytical Factor Notching: 0.0

Monroe County's Model Implied Rating is 'AA'. The associated numerical value of 8.78 is at the upper end of the 8.0 to 9.0 range for its current 'AA' rating.

## KEY RATING DRIVERS

### FINANCIAL PROFILE

#### Financial Resilience - 'a'

Monroe County's financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

- Revenue control assessment: High
- Expenditure control assessment: Midrange
- Budgetary flexibility assessment: High Midrange
- Minimum fund balance for current financial resilience assessment:  $\geq 5.0\%$
- Current year fund balance to expenditure ratio: 24.7% (2023)
- Five-year low fund balance to expenditure ratio: 6.9% (2023)

#### Revenue Volatility - 'Strong'

Monroe County's weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

- Lowest three-year revenue performance (based on revenues dating back to 2005): 0.1% decrease for the three-year period ending fiscal 2015
- Median issuer decline: -4.7% (2023)

## DEMOGRAPHIC AND ECONOMIC STRENGTH

### Population Trend - 'Weakest'

Based on the median of 10-year annual percentage change in population, Monroe County's population trend is assessed as 'Weakest'.

Population trend: -0.2% Analyst Input (6th percentile) (vs. -0.2% 2022 median of 10-year annual percentage change in population)

### Unemployment, Educational Attainment and MHI Level - 'Midrange'

The overall strength of Monroe County's demographic and economic level indicators (unemployment rate, educational attainment, median household income [MHI]) in 2023 are assessed as 'Midrange' on a composite basis, performing at the 55th percentile of Fitch's local government rating portfolio. This is due to high education attainment levels offsetting midrange median-issuer indexed adjusted MHI and unemployment rate.

-- Unemployment rate as a percentage of national rate: 102.8% 2023 (43rd percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 40.5% (2022) (75th percentile)

-- MHI as a percent of the portfolio median: 98.6% (2022) (48th percentile)

### Economic Concentration and Population Size - 'Strongest'

Monroe County's population in 2023 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 748,482 Analyst Input (above the 15th percentile) (vs. 750,887 2022 Actual)

-- Economic concentration: 25.4% (2023) (above the 15th percentile)

## **Analyst Inputs to the Model**

Analyst inputs to the model reflect metric adjustments to account for historical data anomalies, forward-looking performance shifts, or non-recurring events that may otherwise skew the time series.

Fitch used 2023 population, the most current information available.

## **LONG-TERM LIABILITY BURDEN**

### **Long-Term Liability Burden - 'Strongest'**

Monroe County's long-term liability metrics remain broadly strong across each of the three dimensions: liabilities to personal income, liabilities to governmental revenue, and carrying costs to governmental expenditures. The long-term liability composite metric in 2023 is at the 93rd percentile, indicating a low liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 1.9% Analyst Input (90th percentile) (vs. 1.9% 2023 Actual)

-- Liabilities to governmental revenue: 50.5% Analyst Input (98th percentile) (vs. 49.8% 2023 Actual)

-- Carrying costs to governmental expenditures: 7.8% (2023) (91st percentile)

Analyst adjustments were made for direct debt to reflect one-year amortization of scheduled principal through fiscal end 2024, and the addition of the county's series 2024 GO bond issuance in the amount of \$47.4 million.

## **PROFILE**

The county is located on the southern shore of Lake Ontario in the Finger Lake region of western New York, 70 miles east of the Buffalo/Niagara Falls region. The city of Rochester (IDR AA-/Stable) is the county seat and one of the largest industrial and commercial centers in the state. The county's 2023 population of 748,482 has grown less than one percent since 2010. Wealth levels are below New York state and national averages.

The county's economy has diversified from its manufacturing roots, and is home to a robust healthcare and higher education presence including the University of Rochester Medical

Center and its affiliated hospitals which help draw life science companies to the Rochester area and support a significant level of employment. The Rochester area optics industry is also diverse with digital imaging, semiconductor, laser, aerospace and defense companies located in the county.

Ongoing development including Coca-Cola's plan to build a Fairlife production facility in the county, the renovation of the Genesee Brewery, and several commercial real estate development projects are expected to provide long-term employment opportunities to the county.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG CONSIDERATIONS**

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

<https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

## **FITCH RATINGS ANALYSTS**

### **Margot Johnston**

Analyst

Primary Rating Analyst

+1 212 908 0254

[margot.johnston@fitchratings.com](mailto:margot.johnston@fitchratings.com)

Fitch Ratings, Inc.

Hearst Tower 300 W. 57th Street New York, NY 10019

### **Kevin Dolan**

Director

Secondary Rating Analyst

+1 212 908 0538

[kevin.dolan@fitchratings.com](mailto:kevin.dolan@fitchratings.com)

**Pascal St Gerard**

Senior Director

Committee Chairperson

+1 415 732 7577

pascal.stgerard@fitchratings.com

**MEDIA CONTACTS****Sandro Scenga**

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)**PARTICIPATION STATUS**

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**APPLICABLE CRITERIA**

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

**APPLICABLE MODELS**

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

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