

CREDIT OPINION

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Send Your Feedback

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Monroe County, NY

Update to credit analysis following upgrade to Aa3

Summary

The Aa3 reflects the county as one of the economic engines of upstate New York (Aa1 stable). The county is home to numerous universities, hospitals and corporate headquarters. The county's financial flexibility improved significantly over the past five years as a result of conservative budgeting, careful expense management and Covid relief monies. Reserves and liquidity have likely hit their high point and will decline over the next two years to bring it in line with management's reserve policy of 10% of expenses. Leverage is well below peers within New York and remains manageable. Somewhat offsetting the county's strong financial performance are the operations at the county hospital, which continue to struggle, putting an increased, albeit still manageable, burden on the county's General Fund.

On October 24, 2024, we upgraded the county's issuer rating and GOLT ratings to Aa3 stable from A1 positive.

Credit strengths

- » Economic engine of the region
- » Institutional presence of multiple universities and health care institutions
- » Solid reserves

Credit challenges

- » Large budget gaps for 2024 and projected for 2025
- » Hospital operations continue to be a weakness

Rating outlook

The stable outlook reflects the fact that reserves will remain sound, despite the projected budget gaps through 2026. Management has shown a willingness ability to partially close budget gaps through conservative budgeting and strong fiscal controls.

Factors that could lead to an upgrade

- » Increase in available reserves above 25% of revenues
- » Improvement in liquidity ratio above 30% of revenues

Factors that could lead to a downgrade

- » A reduction in available reserves below 10% of revenues
- » Substantial increase in leverage

Key indicators

Exhibit 1

Monroe (County of) NY

	2020	2021	2022	2023	A Medians
Economy					
Resident income ratio (%)	98.1%	98.5%	99.9%	N/A	85.3%
Full Value (\$000)	\$45,953,610	\$48,689,416	\$50,268,951	\$56,909,460	\$2,186,642
Population	743,084	757,332	756,406	N/A	29,429
Full value per capita (\$)	\$61,842	\$64,291	\$66,458	N/A	N/A
Annual Growth in Real GDP	-4.3%	3.9%	1.6%	N/A	4.1%
Financial Performance					
Revenue (\$000)	\$1,619,706	\$1,759,392	\$1,840,904	\$1,879,174	\$32,444
Available fund balance (\$000)	\$180,608	\$243,029	\$317,807	\$277,747	\$11,049
Net unrestricted cash (\$000)	\$181,843	\$308,025	\$429,437	\$442,304	\$18,204
Available fund balance ratio (%)	11.2%	13.8%	17.3%	14.8%	30.0%
Liquidity ratio (%)	11.2%	17.5%	23.3%	23.5%	52.5%
Leverage					
Debt (\$000)	\$812,220	\$820,548	\$868,134	\$860,627	\$16,808
Adjusted net pension liabilities (\$000)	\$1,249,226	\$874,149	\$764,205	\$585,275	\$31,008
Adjusted net OPEB liabilities (\$000)	\$583,614	\$498,058	\$397,022	\$400,023	\$2,780
Other long-term liabilities (\$000)	\$59,734	\$61,902	\$77,953	\$79,268	\$793
Long-term liabilities ratio (%)	167.0%	128.1%	114.5%	102.4%	178.1%
Fixed costs					
Implied debt service (\$000)	\$60,068	\$58,165	\$57,553	\$60,630	\$1,247
Pension tread water contribution (\$000)	N/A	\$56,795	\$39,776	\$33,565	\$899
OPEB contributions (\$000)	\$25	\$30,327	\$32,173	\$34,729	\$76
Implied cost of other long-term liabilities (\$000)	\$5,078	\$4,278	\$4,342	\$5,444	\$54
Fixed-costs ratio (%)	6.1%	8.5%	7.3%	7.2%	7.9%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Rochester, NY Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Monroe (County of) NY's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Monroe County is located in western upstate New York. Home to the City of Rochester (A1 stable), the county has a population of approximately 743,000 according to the American Community Survey.

Detailed credit considerations

Economy - Local economy expected to remain strong given ongoing development

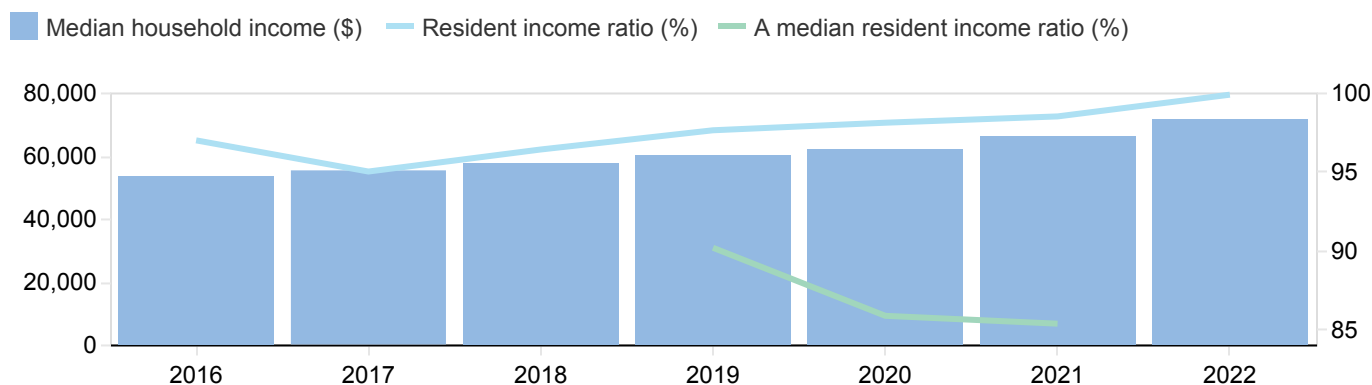
Monroe County's local economy will continue to grow, driven by population growth, continued investment in various institutions, and ongoing development and redevelopment. Ever since the decline of a number of large corporations based in the City of Rochester, such as Kodak, the city has looked to diversify its employment base, focusing on smaller companies. While the companies either relocating to or starting up in Rochester are smaller, they are generally well paying high tech jobs. Additionally, the downtown high-tech incubator in Rochester is becoming a destination for smaller companies. This, along with other smaller firms relocating into the city, has led to a revitalization of the downtown. Residential interest in the downtown, particularly among the millennials, has picked up, improving residential housing values. While the city has been improving, the suburbs remain very strong. As a result, full value has grown by over \$12 billion over the past four years to \$56.9 billion in 2023. The region is well known for its manufacturing of optics, photonics and imaging and this has led a number of small to medium sized firms to look at the county. The well-educated work force is also a driver of companies looking to move into the region.

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Higher education and healthcare institutions ("Eds and Meds") provide stability to the county's tax base and employment levels. The county is home to five higher ed institutions, including the University of Rochester (Aa3 stable) and the Rochester Institute of Technology (A1 stable). In total, the Eds and Meds sectors account for 25% of jobs in the county. The University of Rochester/Strong Memorial Hospital is the county's largest employer, and one of the top employers in all of New York State, at approximately 29,000. UR Medical Center has begun construction on a 650,000 square foot hospital which will triple its emergency room capacity. While the added space will not produce any additional property tax revenue, it will likely increase employment significantly.

Residential development continues, particularly in the suburban communities outside of Rochester, driving annual assessed value growth. Management expects residential development to continue over the near term.

Exhibit 2
Resident Income



Source: Moody's Ratings

Financial operations - Available reserves to remain sound despite structurally imbalanced budgets

The county's financial flexibility is expected to remain adequate, despite large budget gaps over the next three years. After several years of improved reserves, driven by conservative budgeting and federal money, the county budgeted to use \$44 million to balance the 2024 budget. According to the county's second quarter KIR report, a quarterly budget report, operations are trending slightly better than budget. Management indicates that it will likely not need to use the full budgetary appropriation of \$44 million, and will likely reduce that by \$10-15 million by year-end. Sales tax revenues have not produced the same level of budgetary surplus in 2024 than what the county typically sees, although the budget for sales taxes remains conservative. Looking forward to 2025 the county is forecasted to use between \$29-30 million fund balance to balance the budget.

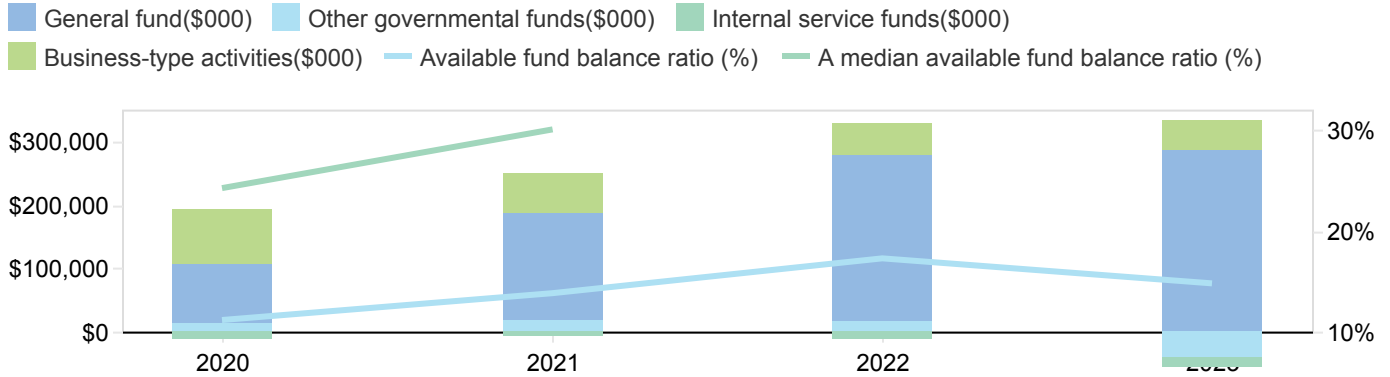
The county's operations, like many other county's in the state, include a substantial amount of pass through money which will artificially lower its reserve and liquidity ratios. Monroe's sales tax revenue sharing is among the most generous in the state. Since the sales tax revenue is included in the county's revenue stream, it significantly impacts the ratios. When eliminating the estimated \$430 million in sales tax pass through money, the available fund balance ratio improves to over 19% of revenues, a significant improvement over audited figure of 14%. In addition to the sales tax pass through, there are various state and federal funds that also artificially inflate revenues, negatively impacting ratios.

The county is exposed to a number of enterprise funds, most of which are healthy. The County's Solid Waste Fund, which has a long history of financial struggles, has rebounded over the last decade and continues to operate at a surplus. The fund still owes the county \$5 million which the county booked as a non-spendable asset several years ago to take it out of its available reserves. The county budgeted a \$2 million subsidy to the fund that was meant to essentially eliminate the liability. It's likely the fund will eliminate the loan by 2026.

The county's hospital fund, however, continues to struggle. Over the past several years, the county has needed to contribute an increased subsidy to the hospital to help support operations. The county budgeted \$13 million in 2024 up from \$8 million in 2022 and is expected to marginally increase that support going forward. Overall bed usage is still below pre-pandemic norms but has improved

the past two years and is forecasted to increase again. As of now, there is no plan for the county to either sell or close the hospital. The county's ability to bring the hospital operations into balance will be a key credit factor moving forward. Positively, the county has set aside in reserves within the General Fund, an amount equal to the hospital's accumulated deficit. If the hospital's operations were to improve, county management would likely move those monies to the county's reserves.

Exhibit 3
Fund Balance

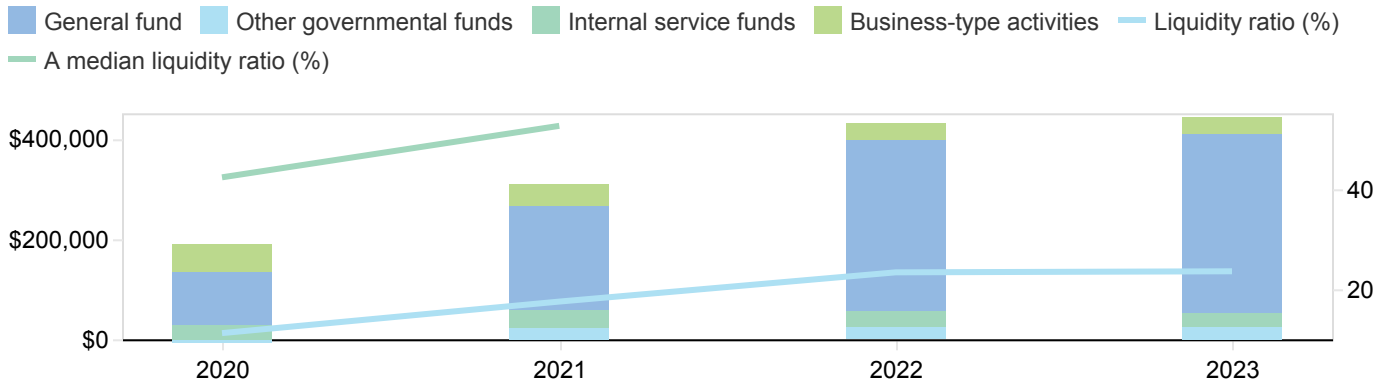


Source: Moody's Ratings

Liquidity

County liquidity remains strong and when eliminating pass through sales tax revenues increases to a sound 30% of revenues. However, it will likely decline over the next three years given the county's forecasted budget gaps.

Exhibit 4
Cash



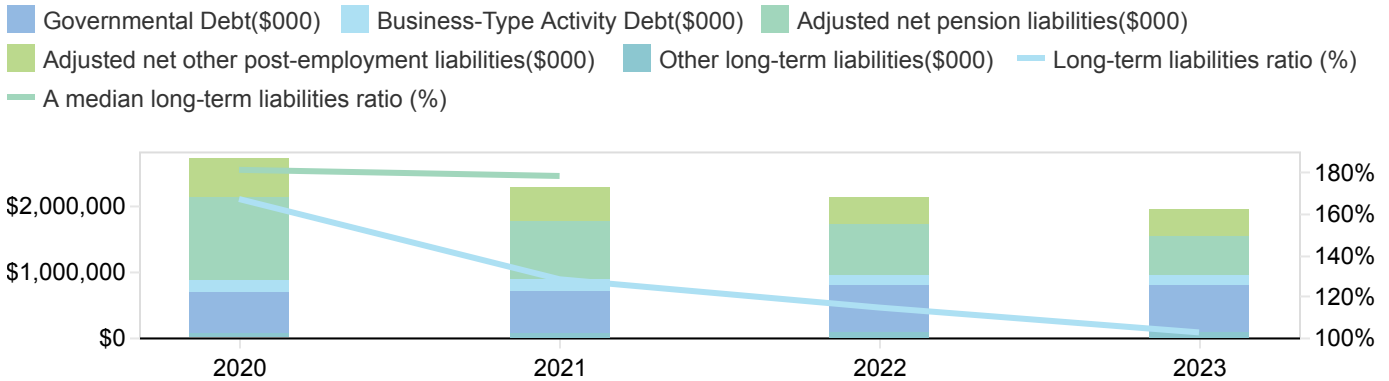
Source: Moody's Ratings

Leverage - Low leverage relative to peers state wide

The county's leverage ratio is a credit strength, even when eliminating the sales tax revenue pass through. Leverage for the county is well below peers within the state and is not likely to materially increase in the next two years. Borrowing over the next two years will remain in line with historical averages and is not likely to increase the leverage.

Exhibit 5

Total Primary Government - Long Term Liabilities



Source: Moody's Ratings

Legal security

Payment of principal and interest on the county's general obligation bonds is backed by the county's faith and credit supported by the county's authority to levy such ad valorem property taxes as may be necessary to pay the bonds, as limited by New York State's legislative cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

All debt is fixed rate.

Debt-related derivatives

The county is not exposed to derivative agreements.

Pensions and OPEB

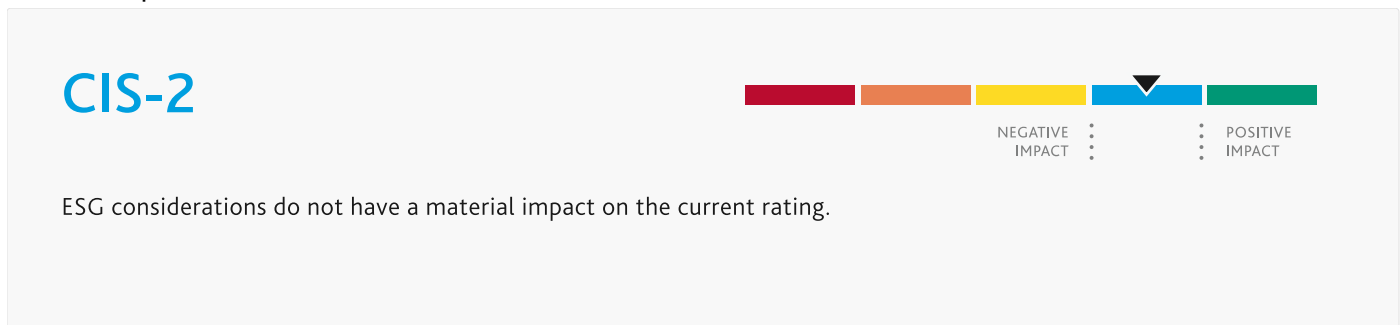
Most New York counties face relatively small pension risks, illustrated by low adjusted net pension liabilities (ANPLs). New York counties generally have the lowest reported pension discount rates among US local governments, and as a result their contributions relative to the funding needs of their retirement system are comparatively very strong, promoting asset accumulation. Lower reported discount rates drive governments' costs higher in the near-term, but reduce dependence on long-term investment returns to cover the cost of retiree pension benefits. On the other hand, New York counties tend to have higher retiree health care liabilities than cities in other states. As of fiscal year 2023 reporting, the median adjusted net OPEB liability for New York counties was around 49% of revenue, compared to a median of 4% across rated cities in the other 49 states.

ESG considerations

Monroe (County of) NY's ESG credit impact score is CIS-2

Exhibit 6

ESG credit impact score

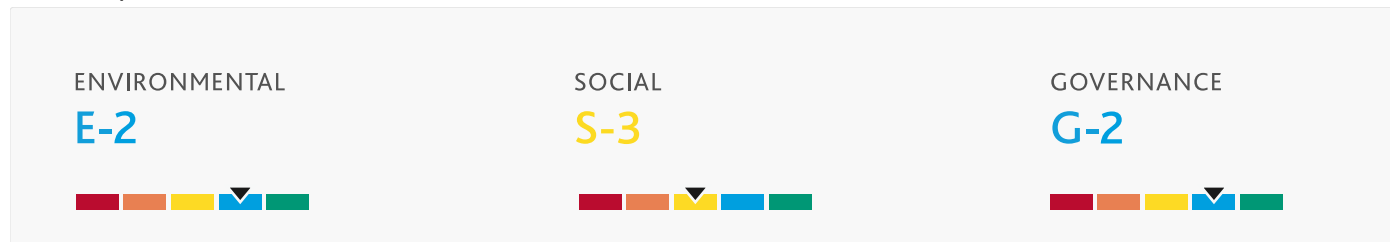


Source: Moody's Ratings

Monroe's ESG CIS impact score is a 2, reflecting low exposure to environmental risks, moderate exposure to social risks and low exposure to governance risks.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The county's overall environmental issuer profile score is **(E-2)**, reflecting neutral to low risk. Located in northwest New York, all of the county's sub factors score neutral to low. Located near Lake Erie, the county does experience significant snowstorms during the winter months. While these storms can be severe it is offset by the experience in dealing with these storms and their overall impact on the county is low.

Social

Exposure to social risk is moderately-negative **(S-3)**. While the City of Rochester's population has declined significantly over the past fifty years, Monroe County has fared better than the city. As the economic engine of the county, the city's socio-economic profile does weigh on the county as a whole. And while educational attainment significantly trails state wide averages within the City of Rochester, the surrounding suburbs generally do have strong educational attainment consistent with state wide averages.

Governance

Monroe's exposure to governance risk is neutral-to-low **(G-2)**. While the county maintains reserves below peers, it does so on a consistent basis and manages its budget efficiently. It's exposure to institutional structure is consistent with most New York local governments. Policy credibility and effectiveness and transparency and disclosure do not pose a risk at this time.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Monroe (County of) NY

	Measure	Weight	Score
Economy			
Resident income ratio	99.9%	10.0%	A
Full value per capita	85,562	10.0%	A
Economic growth metric	-1.1%	10.0%	A
Financial Performance			
Available fund balance ratio	14.8%	20.0%	Baa
Liquidity ratio	23.5%	10.0%	A
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	102.4%	20.0%	Aa
Fixed-costs ratio	7.2%	10.0%	Aaa
Notching factors			
Potential for significant change in leverage	-0.5		
Scorecard-Indicated Outcome			A1
Assigned Rating			Aa3

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Rochester, NY Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Monroe (County of) NY's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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