FitchRatings

RATING ACTION COMMENTARY

# Fitch Assigns 'AA' Rating to Oneida County, NY's $17.3 Million Limited Tax Bonds; Outlook Stable

Fri 09 Jun, 2023 - 5:01 PM ET

Fitch Ratings - New York - 09 Jun 2023: Fitch Ratings has assigned a 'AA' rating to Oneida County's $17.3 million limited tax general obligation (LTGO) public improvement bonds of 2023.

The Rating Outlook is Stable.

## RATING ACTIONS

| ENTITY / DEBT | RATING | | | PRIOR |
|---|---|---|---|---|
| Oneida County (NY) [General Government] | | | | |
| Oneida County (NY) /General Obligation - Limited Tax/1 LT | LT | AA Rating Outlook Stable | Affirmed | AA Rating Outlook Stable |

VIEW ADDITIONAL RATING DETAILS

Proceeds from the series 2023 bonds will be used to finance various county improvement projects. The bonds are expected to sell on June 13 via competitive bid.

## SECURITY

The GO bond ratings are payable from the full faith and credit and taxing power of the county, subject to a 2011 state statute limiting increases in the property tax levy 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.

## ANALYTICAL CONCLUSION

The 'AA' rating reflects Fitch's expectation that the county will maintain a high level of financial flexibility through economic cycles supported by its superior level of gap-closing capacity, including a solid level of expenditure control and high independent legal ability to raise revenues. The county's long-term liability burden, including overall debt and net pension liabilities, is low as a percentage of personal income and is expected to remain low based on manageable debt issuance plans and a practice of fully funding required pension contributions.

### Economic Resource Base

The county is located in central New York, approximately 50 miles east of Syracuse. The county's 2021 census population was 230,274 reflecting a 2% decline since the 2010 census. Real estate market values have remained relatively stable. Unemployment has tracked closely to national levels over the past several years and slightly better than state levels more recently. Consistent with the central New York region, median household income remains below the state and national averages.

## KEY RATING DRIVERS

### Revenue Framework:

Fitch expects the county's natural revenue growth to approximate the rate of inflation over the long term based on current and historical trends. The county's independent legal ability to raise property tax and fee revenues is considerable given the county legislature's ability to override the tax levy cap and increase fines and fees.

### Expenditure Framework:

Oneida County's expenditures are expected to increase marginally above the rate of revenue growth. Management has solid expenditure flexibility reflecting the moderately-low carrying costs for debt, pension and other post-employment benefits and its ability to adjust spending to maintain stable financial operations.

**Long-Term Liability Burden:**

Overall debt and pension liabilities are less than 4% of the county's personal income, a low burden on resources.

**Operating Performance:**

The county is expected to maintain the highest financial resilience through economic cycles, given its solid reserve cushion and management's ability to independently raise revenues and control expenditures.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Continued revenue growth at a sustained level that exceeds the rate of national inflation.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--An erosion of the county's gap-closing capacity that results in a material decline in the county's financial resilience.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

## CURRENT DEVELOPMENTS

Oneida County has maintained stable financial operations over the past several years, with unrestricted general fund balances of approximately 10% of fund spending since 2016. Unrestricted general fund balance at the end of 2021 was $46 million on a GAAP basis, 11.5% of general fund spending, following a $13.6 million operating surplus on the year. The county's general fund revenues exceeded the adopted budget by roughly $68 million, primarily driven by significant non-property taxes growth, including sale taxes that were approximately 66% over budget.

Unaudited 2022 results indicate that the county will end the year with a healthy general surplus of approximately $28.3 million on a budgetary basis, which is expected to bolster general fund reserves. The positive results were primarily driven by healthy sales tax and gaming revenue growth that exceeded the adopted budget assumptions.

The adopted 2023 general fund budget held the property tax levy flat, as it has done for the past ten years, assumes $131.9 million in sales tax revenues, a slight increase from the 2022 adopted budget assumptions, and appropriated $6.5 million in general fund balance. The adopted budget assumed that expenditures would increase by roughly 7%, incorporating salary and benefit cost increases. The operations budget does not include the use of American Rescue Plan Act (ARPA) funds. Year-to-date expenditures are tracking close to budget, while gaming, sales and hotel occupancy taxes are exceeding projections.

The county had received a $44.4 million ARPA allocation from the federal government. The county used a portion of the funds for pandemic-related expenses, including a vaccination incentive, and will use the remaining funds for various types of infrastructure projects including flood mitigation, hospital renovations and parking garage, and community college renovations and construction.

## CREDIT PROFILE

The county benefits from ongoing economic development activity, with SUNY Polytechnic Center and county-owned Griffiss International Airport playing a key role. The Griffiss Business and Technology Park, a multiuse industrial and technology park, has benefited from significant public and private investments over the past 25 years. The former Air Force base has made way for new development including industrial and commercial development, residential, hotel and office space. The park continues to expand including the opening of Orgill, Inc.'s new 780,000 square foot, $70 million distribution center, which added 225 new jobs and the completion of a $7.1 million airport terminal, including a customs inspection building. The park is also home to SkyDome, the nation's largest indoor drone testing facility, major distribution centers, Booz Allen Hamilton and additional class A office space that houses cybersecurity and advanced communication firms.

The county also benefits from ongoing investment in the nanotech industry, including significant investment by New York State and Mohawk Valley Economic Development Growth Enterprises Corporation (EDGE) for the ongoing development of Marcy Nano-center at SUNY Polytechnic Center. Mohawk Valley Health System (MVHS) is currently constructing its new $550 million hospital campus funded in part by a $300 million grant from New York State Department of Health. The project is expected to create 1,000 new jobs once complete in 2023.

**Revenue Framework**

The county's portion of the statewide sales and use tax accounted for approximately 30% of general fund revenues, and intergovernmental revenue was 36% including gaming revenues (roughly 5% of general fund revenue). Property taxes accounted for approximately 17% of general fund revenues in 2010, and growth absent policy action is likely to remain modest.

Fitch expects natural revenue growth trends to be in line with inflation given ongoing and significant business and high-tech investment in the local economy. Growth in assessed values has been relatively slow but steady and county officials report an uptick in residential real estate values in 2021. Recent sales tax revenue growth is strong but remains sensitive to economic shifts.

The county is subject to the 2011 state statute limiting increases in the property tax levy to the lesser of 2% or an inflation factor (the tax cap law). This limit can be overridden by a 60% vote of the county legislature and therefore does not limit the county's independent control. Sales tax rate increases must be approved by the state of New York.

The county receives gaming revenues through a 2014 tribal revenue sharing settlement with the Oneida Nation. The county receives 25% of the net gaming revenue from slot machines allocated to the state and an additional $2.5 million annually through 2033. The gaming revenues saw a decline in 2020 but exceeded budgeted estimates for 2021 and 2022.

**Expenditure Framework**

The county's largest expenditure is health and economic assistance, including Medicaid, at approximately 50% of budgeted general fund spending in 2021, followed by general government services (26%), public safety (15%) and education (6.6%).

Oneida County's expenditure growth is likely to increase at a rate marginally above revenue growth in the absence of policy action. Growth in labor costs has been managed through attrition, moderate negotiated salary increases and more recently through an early retirement incentive. The county has five collective bargaining units that represent 67% of the county's total workforce. One labor contract is expired and the county is negotiating new contracts with the expectation for manageable salary increases.

The county has solid expenditure flexibility. Carrying costs for pension, OPEB and debt service costs are low, accounting for approximately 10.4% of expenditures in 2021. Carrying costs are expected to remain low given the declining debt service schedule. Management maintains the ability to control employee costs, which includes furloughs and employee attrition, and reduce discretionary spending to mitigate revenue shortfalls.

### Long-Term Liability Burden

The long-term debt and Fitch-adjusted net pension liability burden is low at approximately 2.3% of personal income, and is primarily attributable to the overall net debt. Direct debt makes up 52% of the long-term liability burden and future county debt plans are modest, while overlapping debt represents 47.6%. Amortization is rapid, with 71% of principal paid within 10 years.

The county is contingently liable for operating deficits and repayment of $5.8 million of debt related to the Oneida-Herkimer Solid Waste Management Authority. No support has been necessary thus far. The obligation to repay the debt is a joint obligation with Herkimer County. A conservative estimate adding the authority's debt would not materially alter Fitch's assessment of the county's long-term liability burden.

The county participates in New York state multi-employer pension plans. The employees' and police and fire plans had a combined ratio of net assets to liabilities of 100% at Fitch's adjusted 5.6% rate of return as of Dec. 31, 2021. The county's OPEB obligations are a modest burden on resources, accounting for approximately 1% of personal income.

### Operating Performance

Oneida County has very strong financial resilience, including healthy available general fund reserves, superior inherent budget flexibility and low expected revenue volatility. The county built up general fund reserves through 2021 to approximately 11.5% of general fund spending through strong revenue collections and careful management of expenditure growth over time. Fitch expects the county will maintain its superior gap closing ability over time given its significant ability to increase revenues and solid expenditure flexibility.

The county's recent financial performance has been positive over time. The county estimates an increase in 2022 based on current financial estimates and the 2023 adopted budget assumes conservative budget assumptions. Fitch believes the county's financial performance will remain healthy given its track record of conservative budgeting practices that allow the county to outperform budgeted projections.

#### DATE OF RELEVANT COMMITTEE

11 January 2023

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

#### 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

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## APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

## APPLICABLE MODELS

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

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## ADDITIONAL DISCLOSURES

Solicitation Status

Endorsement Policy

## ENDORSEMENT STATUS

| | |
|---|---|
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