

# RatingsDirect®

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## Summary:

# Broome County, New York; General Obligation

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## Summary:

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### Credit Profile

Broome Cnty GO (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Broome Cnty GO (FGIC) (National) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

## Rationale

S&P Global Ratings affirmed its 'A+' long-term rating on Broome County, N.Y.'s existing general obligation (GO) debt. The outlook is stable.

The bonds are secured by the county's faith-and-GO credit pledge.

In recent years, the county faced significant financial pressures, which culminated in significant budgetary challenges and weakened reserves, both stemming from the change in the amount of sales tax remittance to municipalities, optimistic budgeting practices, and expenditures exceeding budget. Although the county's reserves are currently weak, based on fiscal 2016 audited information, the county has taken impactful actions that we expect will likely restore fiscal stability in the near term. Given the actions being taken by the county and the projection for positive results in fiscal 2017, we do not believe rating or outlook action is warranted at this time.

In our opinion, the rating reflects the county's:

- Weak economy, with projected per capita effective buying income at 87.0% of the national level and market value per capita of \$49,501;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Adequate budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2016 level of 4.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 12.3% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.4% of expenditures and net direct debt that is 32.5% of total governmental fund revenue, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Weak economy**

We consider Broome County's economy weak. The county has an estimated population of 196,255. The county has a projected per capita effective buying income of 87.0% of the national level and per capita market value of \$49,501. Overall, the county's market value grew by 1.1% over the past year to \$9.7 billion in 2018. The county unemployment rate was 5.4% in 2016.

Broome County is in the southern tier of New York State, about 75 miles from Syracuse and includes the city of Binghamton, which has an estimated population of 45,700 and directly north of the Pennsylvania border. The State University at Binghamton, with approximately 16,900 students and employing about 5,900 people, anchors the local economy. The southern tier region was the winner of \$500 million in state aid and incentives, granted in December 2015, much of which continues to support recent and planned expansion in and around Binghamton University and the SUNY2020 plan. In addition to the university, other major private employers in the county include United Health Services (estimated 5,400 employees), Broome County (2,500), and Our Lady of Lourdes Hospital (2,300).

Market values have generally been flat over the past three years, but did tick upward in 2017. The largest taxpayer is New York State Energy & Gas. Top 10 taxpayers make up just under 10%. A full casino license was given to Tioga Downs in neighboring Tioga County, which has begun to support additional growth opportunities on Route 17, which runs through the county in addition to Interstate-81.

### **Adequate management**

We view the county's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Broome County maintains formal procedures supporting the creation and surveillance of the budget, including meetings with county departments to assess budgetary needs, analysis of revenue and expenditures trend data in forming budgetary assumptions, and formal procedures for budget adjustments, including board-approved amendments where necessary, based on discussions in monthly board meetings. However, the county has optimistically budgeted for sales tax revenues in recent years, which has in turn led to consistent negative variance for sales tax items, resulting in weaker-than-anticipated performance.

The county does not currently maintain a long-term financial plan, but is looking to create, propose, and have the county legislature approve one in the coming years. The county does maintain a formal six-year capital improvement plan, which is adopted annually and identifies projects and funding sources. The county also maintains an investment policy outlining selection of depository financial institutions and guidance on investments. However, updated reports are not regularly reported to the board. The county does not maintain a formal reserve policy, or debt management policy.

### **Adequate budgetary performance**

Broome County's budgetary performance is adequate in our opinion. The county had balanced operating results in the general fund of negative 0.3% of expenditures, but a deficit result across all governmental funds of negative 3.1% in fiscal 2016.

Broome County experienced a prolonged period of weakness as a result of a change to how it previously collected and remitted sales taxes to municipalities within the county coupled with overly optimistic revenue projections in certain major line items. However, the county capped sales tax growth remitted to municipalities at 0.5% in 2011, growing to 1% in 2012, 1.5% in 2013, and 2% in 2014, half of the amount collected, where it is expected to remain. As a result of the structural imbalances between fiscal years 2014 through 2016, Broome County depleted its fund balance to dangerously low levels. In September 2014, the county received a designation of significant fiscal stress from the state comptroller's Fiscal Stress Monitoring System and continued into fiscal 2016. In response, the current county executive requested the state comptroller's office to perform an audit on the county's fiscal condition. The county is currently working to establish fiscal stability for its finances in the near term using the state comptroller's audit as a guideline.

The county's fiscal 2016 results were weaker due to revenue softness with tax receivable deferrals, budgeted revenues not received, and declines in sales taxes coupled with increased expenditures. As a result, the county closed with a \$963,000 drawdown and total reserves at \$16.5 million or just 4% of expenditures. However, the county's unassigned general fund balance dropped to a nominal \$255,000 or 0.1% of expenditures; (against a roughly \$370.0 million budget) and declining from \$10.0 million or 2.8% of expenditures in fiscal 2013.

As a response to ongoing budgetary weakness, the county installed a short-term hiring freeze and is reassessing certain staffing needs. The county also experienced better-than-budgeted sales tax revenues and casino revenues from Tioga Downs. These areas of positive budgetary variance should support the county's first year of positive operations since 2013.

The county budgeted for sales tax growth to be flat in fiscal 2017; however, we believe the county's actual sales tax revenues are likely to exceed budgeted given sales tax collection data from the state comptroller's office. Coupled with cost-cutting measures that occurred later in fiscal 2017, the county is projecting to close with an operating surplus, net of transfers, and add to general fund balance.

The county's total adopted fiscal 2018 budget is \$374.5 million and includes the appropriation of \$3.7 million of reserves or 31.5% less than in fiscal 2017. According to management, this is a level it believes the county can replenish. However, no reserves have been appropriated in the general fund. The budget also remains within the state mandated tax cap. The county has budgeted for 2.75% growth in sales taxes in fiscal 2018, and while this is in line with the most recent year's results, it may aid in fund balance restoration if the county continues to come in over budget.

Given the county's recent fiscal stresses and the initial projections for fiscal 2017 and its return to fiscal stability, we believe Broome County will maintain, at least adequate, budgetary performance for the near term.

### **Adequate budgetary flexibility**

Broome County's budgetary flexibility is adequate, in our view, with an available fund balance that we expect could improve in the near term from its fiscal 2016 level of 4.0% of operating expenditures, or \$13.4 million.

As a result of deterioration in performance over the past three years, available reserves have declined to \$13.4 million or 4% of expenditures in fiscal 2016; a level we now consider weak. However, with a projected operating surplus for fiscal 2017, which is expected to fall to fund balance, we believe reserves could rise above the 4% mark. If this happens

and they are maintained at that higher level, the score could improve to adequate. Given the commitment made by the county's new administration to restore structural balance and improve reserve levels with more conservative budgeting practices, we do not expect the budgetary flexibility score to weaken in the near term.

### **Very strong liquidity**

In our opinion, Broome County's liquidity is very strong, with total government available cash at 12.3% of total governmental fund expenditures and 3.6x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

We consider the county's access to external liquidity to be strong having issued general obligation bonds and notes over the past 20 years. In addition, the county has issued tax anticipation notes (TANs) for cash flow purposes, since 2011. However, while this practice continues, issuance amounts have declined from \$20.0 million to \$10.0 million in 2016 and the term has been reduced to 90 days from one year. The TANs amounts are included in total liquidity. Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. The county maintains deposits in money market accounts, certificates of deposit, and treasury bills, which we do not consider aggressive. Despite Broome County's recent fiscal pressures, we believe the county's liquidity will remain at least strong.

### **Adequate debt and contingent liability profile**

In our view, Broome County's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.4% of total governmental fund expenditures, and net direct debt is 32.5% of total governmental fund revenue.

The county makes extensive use of bond anticipation notes (BANs) in financing capital expenditures, and where BANs for identified projects are not fully paid off in five years, permanently finances the remainder of projects. The county is currently planning on issuing long-term debt to permanently finance its existing BANs in May of 2018. In addition, it plans to include roughly \$17.0 million for various capital needs. We do not expect the additional debt to weaken the county's debt and liability score over the near term.

In our opinion, a credit weakness is Broome County's large pension and OPEB obligation. Broome County's combined required pension and actual OPEB contributions totaled 6.7% of total governmental fund expenditures in 2016. Of that amount, 3.6% represented required contributions to pension obligations, and 3.1% represented OPEB payments. The county made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 90.7%.

Broome County participates in the New York State and Local Employees' Retirement System (ERS) and Police and Fire Retirement System (NYSPFRS), which were about 94.7% and 93.5% funded, respectively, as of March 31, 2017, based on Governmental Accounting Standards Board Statement No. 67 and No. 68 reporting for pension assets and liabilities. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable as it is slightly more conservative than the national average. Contribution rates as a share of payroll remain relatively flat year over year.

Since 2010, the county has elected not to use the New York State Contribution Stabilization Program, a state-supported pension smoothing program that allows local governments to defer a portion of its expenses. We

understand county officials do not plan to use the program again in the near term.

The county's OPEB unfunded actuarial accrued liability was \$240.1 million, as of Dec. 31, 2016. The annual required contribution payment in 2016 was \$21.7 million and the county paid \$11.6 million, or 57.4% of the ARC, on a pay-as-you-go basis. As part of its efforts to manage health care costs, the county has initiated a shared services program for prescription drugs, which should work to reduce drug prices and make the county eligible for receiving funds from the state in the first year.

### Strong institutional framework

The institutional framework score is strong.

## Outlook

The stable outlook reflects our expectation that the county will maintain, at least, adequate budgetary performance and no worse than weak budgetary flexibility, while continuing to work toward restoring structural balance and improving reserves after several years of optimistic budgeting practices and weakened financial operations. The county's limited economy and inconsistent financial performance limit the rating's upside; as a result, we do not expect to change the rating within the two-year outlook period.

### Downward scenario

In our opinion, if the county were to not see positive results for fiscal 2017 and beyond and reserves were used to bridge any further imbalances, the rating might be lowered.

### Upward scenario

Conversely, if the county were to see a reversal of recent fiscal trends and experience consistent positive financial operations and improved reserves coupled with the establishment of several formal fiscal policies and improved economic indicators, we might raise the rating.

### 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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

### Ratings Detail (As Of March 29, 2018)

#### New York Mun Bnd Bank Agy, New York

Broome Cnty, New York

New York Mun Bnd Bank Agy GO

<i>Long Term Rating</i>	A+/Stable	Affirmed
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New York Mun Bnd Bank Agy (Broome Cnty) (AGM)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://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](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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