S&P Global
Ratings

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Summary:

Erie County, New York; General Obligation

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Summary:

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Credit Profile		
US$27.92 mil GO pub impro serial bnds ser 2022A due 09/15/2037		
Long Term Rating	AA/Stable	New
US$1.125 mil GO sewer dist serial bnds ser 2022B due 09/15/2037		
Long Term Rating	AA/Stable	New
Erie Cnty GO bnds		
Long Term Rating	AA/Stable	Upgraded
Erie Cnty GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rating Action Overview

- S&P Global Ratings raised to 'AA' from 'AA-' its long-term rating and underlying rating (SPUR) on Erie County, N.Y.'s general obligation (GO) debt outstanding.
- At the same time, we assigned our 'AA' long-term rating to the county's roughly $27.920 million series 2022A GO public improvement serial bonds and roughly $1.125 million series 2022B sewer district serial bonds.
- The outlook is stable.
- The rating action reflects a materially improved reserve position, at a level we consider very strong and which we expect the county will maintain, along with economic growth that will continue to support balanced operations.

Security

The county's faith-and-credit pledge secures the 2022A and 2022B and GO bonds outstanding, including the statutory authorization to levy ad valorem taxes on all real property within the county, subject to applicable statutory limitations.

Officials intend to use series 2022A and 2022B bond proceeds to finance various capital improvements countywide and various sewer projects.

Credit overview

Erie County's $173 million fiscal 2021 year-end result more than offset a $41 million deficit result in the prior year, based on COVID-19-related expenses and a delayed state aid payment. The county projects a $50 million result in fiscal 2022, so despite the planned use of $100 million from reserves to support a new football stadium, we expect reserves to remain very strong. Sales tax revenue continues to grow, with financial stability further supported by a growing property tax base, stable state aid, and a strong financial management environment.

The rating reflects our view of the county's:

- Growing, diverse local economy that anchors the larger economy of western New York;
- Robust, well-embedded financial management policies that are part of operations and a strong Institutional Framework;
- Strong budgetary performance expected to continue, leading to maintenance of very strong reserves and cash balances; and
- Manageable debt and pension and other postemployment benefit (OPEB) profile, despite future debt plans to support a new stadium and a large unfunded OPEB liability.

Environmental, social, and governance

We assessed the environmental, social, and governance (ESG) risks relative to Erie County's economy, management, financial measures, and debt and liability profile. Due to the lack of statutory authority for New York State local governments to prefund OPEB contributions through a dedicated trust and due to the county's total OPEB liability of $1.56 billion, we think governance risk is somewhat elevated compared with peers, outside of New York State, where OPEBs are an implicit subsidy or where they are more easily modified. The county's location on Lake Erie elevates its environmental risks slightly because it deals with various snow-related weather and evolving lakeshore issues. It is a certified StormReady community under National Weather Service criteria and certified silver under New York's climate smart communities, through which it receives grants for climate resiliency-related initiatives. We view its social risks as neutral within our credit analysis.

Outlook

The stable outlook reflects our view that the county is likely to maintain balanced operations, with an upward trend in reserves. We expect future debt plans will be fully incorporated into its planning, limiting financial pressure.

Downside scenario

We could lower the rating if fund balance were to decrease below levels we consider commensurate with the current rating, or if growing debt pressures the operating budget.

Upside scenario

While unlikely in the near term, if long-term economic growth leads to material growth in the underlying economic metrics, all else being equal, we could raise the rating.

Credit Opinion

A diverse economy with ongoing economic development projects that should continue to improve metrics

The 1,058-square-mile county, on Lake Erie, maintains direct access to Toronto, Canada. Buffalo is the state's second-largest city and the county seat. The once manufacturing-heavy economy is diversifying toward the health-services; education; and professional, business, and technical services sectors. Management notes ongoing development across sectors, including new hotels, apartments, and mixed-used complexes. The county, in conjunction with the state, is active in economic development through site remediation and infrastructure support, including rail, water, sewer, and an upcoming fiber-optic network.

It remains to be seen how growing recessionary risk translates to the broader economy, but the county could face trouble maintaining recent growth trends if new development were to weaken. (For more information on recent economic trends, see "U.S. Recession--Are We There Yet?" published Aug. 2, 2022 on RatingsDirect). However, given recent development and the volume and size of projects in the pipeline, we expect an upward trend in the county's economic metrics, despite potential pressures in the near term.

Long-standing and well-embedded financial policies and practices, with a focus on continued balance through long-term financial and capital planning

The county maintains more than 20 years of data and uses multiyear trends with additional weighting for recent years, and figures from external parties, such as New York State Assn. of Counties, when preparing revenue and expenditure assumptions. The Division of Budget and Management regularly reviews budgetary performance and provides monthly reports to the Erie County Legislature, which could adjust and amend the budget throughout the year, if necessary.

Management maintains a mandatory four-year financial plan it updates twice annually for presentation to the Erie County Fiscal Stability Authority (ECFSA). We note that while the authority has been in place since 2005, it has been in an advisory period since 2009. The county also maintains a rolling six-year capital plan with identified funding and sources. The investment management policy mirrors state guidelines with formal quarterly investment holdings and performance reports to the county board. The county follows state debt-management guidelines. It also implementing cyber security measures.

The institutional framework score for New York counties is strong.

Surplus operating results likely to continue through fiscal 2022, leading to maintenance of very strong reserves and cash balances

Erie County's large fiscal 2021 surplus was the product of expenditure cuts, including a 5% cut across all departments, and cuts to pay-as-you-go capital financing and personnel vacancies. Additionally, it had positive revenue variances in some areas, which, particularly in property and sales tax, the county projects continued growth. In the current fiscal year, it also reports receiving nearly $20 million in unbudgeted revenue, consisting of $16 million in casino gaming revenue and $3.9 million from an opioid lawsuit settlement, the latter of which is expected to eventually total $19.2 million in fiscal 2022, although this is restricted for addiction and mental health support services. As revenue continues to outperform, the county expects to end fiscal 2022 with an approximately $50 million surplus.

Available reserves at fiscal year-end 2021 included $100 million the county expects to expend as its cash-funded contribution for a new Buffalo Bills stadium. The total county share for the stadium is $250 million, the remainder of which will be funded by bonds. Unlike its current stadium agreement, county operating assistance is limited to revenue from concession and ticket sales, with no fixed operating or capital requirement from the county. We expect the 2022 surplus will result in maintenance of very strong reserve levels at year-end, with at least balanced results in the near term supporting continued high reserve and cash balances.

We do not expect cash calculations to include investments, and the county does not have aggressive investments that provide significant liquidity volatility. It does not have any variable-rate exposure or privately placed debt that could result in undue contingent liabilities through acceleration events or interest-rate risk. It has shown strong access to external liquidity through its regular issuance of GO debt and revenue anticipation notes.

Finally, the county received approximately $190 million through the American Rescue Plan Act (ARPA). ARPA funds will be spent on one-time capital projects and social support, limiting future budgetary cliffs. Also notably, the county settled its largest bargaining unit contract through fiscal 2027, which should provide additional expenditure predictability.

Manageable debt burden expected to remain relatively stable

The county expects to issue new-money debt in accordance with its five-year capital plan, which we expect will result in debt issuances approximately equal to annual principal paydowns. Overall debt currently totals approximately $489 million, including ECFSA debt. In addition to its general capital needs, the county expects to issue $150 million to support a new football stadium. If this issuance results in annual debt service growth, or if the 10-year principal paydown falls below 65%, it could weaken our view of the debt profile. However, we expect this to be a high-water mark for debt and we do not expect it to pressure the county's overall credit profile, as we expect management to incorporate the debt into its long-term planning to maintain financial balance.

Limited pension pressure but high OPEB liabilities and costs

- We do not view pension liabilities or costs as an immediate credit pressure for Erie County due to strong plan funding and limited escalating cost-trajectory risk.
- We expect pension costs will remain manageable, if not decrease, as the county experiences high retirements at lower pension tiers.
- However, that county has significant OPEB liabilities, which--due to claims volatility and medical cost and demographic trends--is likely to lead to escalating costs and budgetary pressure.

The county and component units participate in the following retirement plans:

- New York State Employees' Retirement System (NYSERS): nearly 100% funded, $1.1 million proportionate share of the net pension liability;
- New York State Teachers' Retirement System (NYSTRS): 113% funded, $17.6 million proportionate share of the net pension asset: and,
- Erie County's OPEB health care plan: 0% funded, $1.56 billion net OPEB liability.

The county funds 100% of its pension actuarially determined contributions. NYSERS' and NYSTRS' high funded ratios mitigate the cost volatility risk from their use of an aggregate cost method, which essentially creates an open amortization policy, using a level-percent-pay method, assuming a 3.8% payroll growth rate, which we generally view negatively. The county provides health care benefits to eligible retirees and their dependents. New York statutes do not authorize counties to prefund OPEB liabilities. New hires are not eligible to participate in OPEBs, but we expect liabilities and costs to remain high for the foreseeable future.

Erie County, NY -- Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Strong economy				
Projected per capita EBI % of U.S.	92			
Market value per capita ($)	80,791			
Population		917,774	919,601	927,004
County unemployment rate(%)		5.5		
Market value ($000)	74,148,295	70,645,602	64,771,315	
Ten largest taxpayers % of taxable value	6.6			
Strong budgetary performance				
Operating fund result % of expenditures		15.4	(3.5)	0.7
Total governmental fund result % of expenditures		16.3	0.1	2.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		26.4	10.6	14.6
Total available reserves ($000)		296,489	124,145	172,268
Very strong liquidity				
Total government cash % of governmental fund expenditures		27	13	9
Total government cash % of governmental fund debt service		387	187	125
Strong management				
Financial Management Assessment	Good			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.1	6.9	7.3
Net direct debt % of governmental fund revenue	32			
Overall net debt % of market value	4.1			
Direct debt 10-year amortization (%)	75			
Required pension contribution % of governmental fund expenditures		2.6		
OPEB actual contribution % of governmental fund expenditures		2.8		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.