STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

December 22, 2011

Summary:

Erie County, New York; General Obligation

ECLEG JUN21'12 AM 9:38

Primary Credit Analyst:
Lindsay Wilhelm, New York 212-438-2301; lindsay_wilhelm@standardandpoors.com

Secondary Contact:
Hilary A Sutton, New York 212-438-7093; hilary_sutton@standardandpoors.com

Table Of Contents

Summary:

Erie County, New York; General Obligation

Credit Profile		
Erie Cnty GO		
Unenhanced Rating	A-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its underlying rating (SPUR) on Erie County, N.Y.'s general obligation (GO) bonds to 'A-' from 'BBB+' based on its recent history of positive operating results, contributing to what we consider a strong financial position. The outlook is stable.

Other positive credit factors include:

- The current status of the Erie County Fiscal Stability Authority (ECFSA), created in July 2005, which now has an advisory role after a control period ending in June 2009;
- The county's strong unreserved general fund balance at fiscal year-end 2010 (year end: Dec. 31);
- Four-year financial plan, approved by ECFSA, that requires minimal use of fund balance for operating purposes; and
- Stable economic base with a below-average unemployment rate and continued taxable assessed value (AV) growth.

We believe the county still faces several risks, including:

- Reliance on economically sensitive sales tax revenue as its primary revenue source, a portion of which is subject to legislative renewal every two years,;
- State limitations on property tax levy growth coupled with increasing mandated costs, including Medicaid and pension;
- An inability to negotiate a contract with its largest union since 2006; and
- Market access risk for purposes of financing operations during low cash-flow periods.

The New York State Legislature and governor created the ECFSA in 2005 to monitor the county's finances. Beginning in fiscal 2006, and for the next two years, the county was in a control period whereby the ECFSA could, among other things, set maximum levels of county spending. Management reports that the ECFSA returned to advisory status in 2009. The county has issued several series of revenue bonds through the authority, and management reports that the ECFSA will remain in its oversight role at least through the final maturity date of the bonds.

The county has realized operating surpluses since the ECFSA has been in place, contributing to a reserve position that we consider strong. Most recently, audited results for 2010 show a $23.5 million surplus, resulting in an ending unreserved general fund balance of $113.5 million, or 9.3% of general fund expenditures, a level that we consider strong. This follows operating surpluses of $44 million and $11 million in fiscals 2009 and 2008, respectively.

The county's fiscal 2011 general fund budget of $1.3 billion appropriated $16.7 million of fund balance for budgetary purposes, which management reports is the first time that officials have made any such appropriation, and $16.7 million for capital spending. These appropriations are consistent with the county's fund balance policy. With less than one month remaining in the fiscal year, officials anticipate a budgetary surplus of $27.3 million, which would result in a net $6 million reduction in unreserved fund balance to $107 million, which we still view as good. Officials attribute the budgetary surplus to sales tax revenue coming in 3% over budget and 4% over the previous year. The fiscal 2012 budget of $1.5 billion appropriates another $8.9 million of fund balance and assumes sales tax growth of 3% over fiscal 2011 actual receipts. The county's fiscal 2012-2015 operations plan, approved by ECFSA, assumes similar sales tax revenue growth. Projections show the use of fund balance in fiscal 2012 and surpluses in fiscals 2013-2015. This is in contrast to previous plans, which demonstrated widening budget gaps.

While sales tax growth has historically been sufficient to offset rising costs, continued expenditure growth could pose a risk to future fiscal balance, in our opinion. Sales tax revenue is the county's largest general fund revenue source, at 53% (including transfers from the ECFSA fund, after payment of debt service), followed by state and federal aid (29%), and real property taxes (16%). Officials report strong sales tax collections in fiscals 2010 and 2011, a trend that they expect to continue based on several factors, including higher oil and utility prices, increasing automobile sales, and a strong Canadian dollar attracting cross-border shoppers. The county's total sales tax levy is 4.75%, of which 1.75% is subject to legislative renewal every two years, both at the county and state level. Officials report that all of the levies are now on the same renewal schedule and were recently extended through November 2013.

The county's fiscal 2012 budget will be its first under the state's property tax levy cap. Officials report that the budgeted increase, which includes tax base growth, is only 1% and well below its allowable increase. Like many counties in New York State, Erie County faces ongoing expenditure pressures, including increasing Medicaid and pension costs and the need to bring any new debt service under the property tax levy cap. In addition, several of the county's labor unions have been out of contract for several years, including its largest union, the Civil Service Employee Assn., which has been out of contract since 2006.

The county issues revenue anticipation notes in the fall of each year to provide interim liquidity while it awaits federal and state social service revenue and sales tax reimbursements. The county issued $65 million in 2009 and 2010, which increased to $88 million in fiscal 2011. Officials attribute the increase in the note issuance to reductions in Federal Medical Assistance Program (FMAP) revenue of a similar magnitude. Provided the anticipated 2011 budgetary surplus, officials project the potential for a reduced borrowing in 2012.

Standard & Poor's considers Erie County's financial management policies and practices "good" under its Financial Management Assessment methodology, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The county has a formal fund balance policy in place of maintaining at least 5% of the preceding year's expenditures in all funds and that only the portion in excess of that 5% may be used as a revenue source. Following budget adoption, additional fund balance appropriations require the affirmative vote of at least two-thirds of the county legislature.

The county has issued sales-tax- and state-aid-backed debt through ECFSA since 2010. The county has not requested a Standard & Poor's rating on these bonds. Current capital projects include a state of the art nursing home facility on the Erie County Medical Center Campus. The county's overall net debt burden is, in our opinion, moderate at $3,486 per capita and moderately high at 6.8% of market value.

The county contributes to the state retirement systems each year. Fiscal 2010 contributions totaled $46 million, or 3% of governmental expenditures, equivalent to the system's required contribution. The county also provides other postemployment benefits, which it funds on a pay-as-you-go basis, pursuant to state statute. Fiscal 2010 contributions totaled $24 million, or 27% of its actuarially determined annual required contribution.

Erie County encompasses more than 1,000 square miles in western New York, including Buffalo, the second-most-populous city in the state. The county's 2010 population was estimated at 903,285, a 7% decrease since 1990. The local economy has remained relatively stable during the economic downturn: Officials report that home foreclosures have decreased for the fifth consecutive year. The unemployment rate, at 7% as of October 2011, is below both the state (7.7%) and national (8.6%) rates. Both assessed and equalized property values continue to rise, and market value per capita is $51,766, which we consider adequate. Following a 3% dip in 2009, sales tax collections are once again on the rise. Officials continue to pursue economic development opportunities; the governor recently announced more than $100 million of grant funding awarded to the Western New York Regional Economic Development Council for workforce, infrastructure, and commercial development and a $35 million grant to the University of Buffalo, expected to create more than 3,000 temporary and permanent jobs.

Outlook

The stable outlook reflects our opinion of the continued improvement in the county's financial position and its strong reserve levels. In addition, the growing diversity of the local economy, which helped mitigate some of the more severe recessionary impacts, provides further rating stability. The county's ongoing ability to maintain structural balance and healthy reserves in light of future fluctuations in its economically sensitive revenue sources could lead to our raising the rating further. Conversely, a reversion to sustained structural imbalance, strained liquidity, and a growing debt burden could result in our lowering the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.