

**Summary:**

## Onondaga County, New York; General Obligation

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Credit Profile		
US\$33.755 mil GO bnds ser 2011 due 05/01/2030		
<i>Long Term Rating</i>	AA+/Stable	New
Onondaga Cnty GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating and stable outlook to Onondaga County, N.Y.'s series 2011 general obligation (GO) bonds and affirmed its 'AA+' long-term rating and underlying rating (SPUR), with a stable outlook, on the county's existing GO debt.

The rating reflects our opinion of the county's:

- Stable and deep economic base that serves as the regional anchor and employment center for central New York, stabilized during weaker economic periods by a large presence of higher education- and health-care-related institutions;
- Strong financial management that has been proactive for several years in adapting to economic and infrastructure challenges, specifically through a willingness to increase revenues when necessary;
- Historical maintenance of strong fund balance levels, achieved through, what we consider, structurally balanced operations; and
- Manageable retirement and debt service fixed costs compared to expenditures, offset by the potential for further Onondaga Lake cleanup-related liabilities.

The county's full-faith-and-credit GO pledge secures the series 2011 bonds. Officials plan to use bond proceeds to finance a number of capital improvement projects, including facility purchase and renovation; road reconstruction; and park, bridge, and sewer projects.

Onondaga County, with a population estimate of 451,600, encompasses approximately 780 square miles in central New York. Syracuse (A-/Stable) is at the county's center, where it anchors commercial activity. Health care and higher education are the county's primary economic drivers, contributing to economic stability. Leading employers include State University of New York (SUNY) Upstate University Health System, Syracuse University, St. Joseph's Hospital Health Center, Crouse Hospital, and Loretto Adult Care Facilities. Property values have increased by more than 20% over the past five years; they are, what we consider, a good \$58,504 per capita. Unemployment, though elevated at 7.4% as of March 2011, remains below state and national rates. Income levels are, in our opinion, a good 92% of the national average. The county and Syracuse continue to actively recruit and retain businesses within the area, and they recently merged their economic development departments.

The county's financial position remains, in our opinion, strong. The county reported an unreserved general fund

balance of more than 9% of expenditures during the past five years. It closed fiscal 2010 with a general fund surplus of \$9.9 million, after transfers, that increased total fund balance to \$84.5 million, or 12.8% of expenditures, \$76.7 million, or, what we consider a strong 11.7%, of which was unreserved. The county reduced its fiscal 2010 budget to offset declining trends in sales tax revenue; positive budget variances with respect to expenditures and sales tax collections, however, contributed to the net surplus.

Onondaga County collects a 4% local sales tax. In May 2010, the county legislature approved a sales-tax-sharing agreement effective for fiscals 2011-2020. The agreement alters the sales tax allocation formula, increasing the county's share to an average of 73.6% and bringing it more in-line with other counties in the state. Before fiscal 2011, the county retained only 40%-49% of collections, distributing the remainder to Syracuse and other towns, villages, and school districts in the county. The agreement phases the adjustment in over five years, and it will replace the property tax as the county's leading revenue source in fiscal 2011.

For tax relief purposes, the county has reduced the property tax levy by approximately \$30 million in fiscal 2011. Net sales taxes account for 30% of fiscal 2011 budgeted revenues, an increase of 47% over the previous year; property taxes are budgeted at 24%. Halfway through fiscal 2011, management reports sales tax collections are tracking ahead of budget. Officials expect the new sales-tax-sharing agreement to prove beneficial to the county; in our opinion, however, sales taxes tend to be a more-volatile revenue source. While the new sales tax agreement reduces the local share of sales tax revenue, county officials do not expect local governmental units to increase their property tax levies significantly to absorb the impact; officials report they are working with localities to absorb or help consolidate some of their operations.

The modified fiscal 2011 general fund budget of \$737.4 million represents a 3% decrease from fiscal 2010 and appropriates approximately \$2.1 million of fund balance. The county was able to reduce expenditures through technology investments and outsourcing services for its correctional and mental health facilities to private vendors. In addition, more than 330 employees reportedly took advantage of the state's early retirement program, allowing the county to either leave positions vacant or backfill positions at a lower wage.

Onondaga County municipalities and school districts collect property taxes on behalf of the county. To the extent any local government unit experiences a shortfall in collections, it will take the difference out of the county's share. In fiscal 2010, the county sold \$13.3 million of real property tax liens to a special-purpose trust. The tax certificates are payable solely from collections. To date, management reports revenues are coming in on target.

The county operates Van Duyn Home & Hospital, a 513-bed nursing home. The facility generally operates at a loss due to its reliance on Medicaid revenues from the state, but it received a one-time infusion of intergovernmental transfer revenue in fiscals 2008 and 2009. In November 2010, the county issued a request for qualifications, seeking a qualified vendor to acquire the facility. Officials selected SUNY Upstate Medical University, which is also acquiring Community General Hospital on the same campus. The parties are currently in a 90-day negotiation period. Assuming they reach an agreement, the acquisition would remove the hospital from the county's books as a component unit.

Standard & Poor's considers the county's management practices "strong" under its Financial Management Assessment methodology, indicating practices are strong, well embedded, and likely sustainable.

Onondaga County's overall debt burden is, in our view, a moderate \$3,023 per capita, or 5.3% of market value. Overlapping debt from Syracuse and other local entities represents approximately two-thirds of the net debt burden.

County direct debt is, in our opinion, low at just \$1,017 per capita, or 1.7% of market value. Debt service carrying charges have historically been, what we consider, low: They were just 4.4% of total governmental expenditures in fiscal 2010. The county continues to retire debt at, what we regard as, a rapid pace with officials planning to retire 69% over 10 years and 97% over 20 years, excluding tobacco settlement bonds. The county's 2011-2016 capital improvement program totals more than \$600 million, which it plans to fund through a combination of grants, bonds, and expenditure items. Major water-facility-related capital requirements include the continued cleanup of Onondaga Lake as required by the amended consent judgment. To date, the county has expended approximately 60% of the estimated \$643 million in project costs, much of which it has funded with state and federal grants. The county administers cleanup costs and debt service through its water environment protection fund; the sewer use charge is the fund's primary revenue source. While the county has made significant progress in its obligation to clean up the lake, significant milestones remain, which could have an effect on the total project cost.

County employees participate in the state retirement fund. The county funds its full annual required contribution (ARC). In fiscal 2010, the state increased the required contribution rate by more than 45%; the county's contribution totaled \$24.6 million, or 2.6% of total governmental expenditures. For fiscal 2011, the county expects its pension contribution to increase to \$37.1 million, reflecting further increases in the required contribution rate and additional payments for employees taking advantage of the 2010 early retirement incentive. The county also provides other postemployment benefits (OPEB) to its employees, funding the benefits through pay-as-you-go financing, pursuant to state requirements. Fiscal 2010 actual contributions represented 2.1% of total governmental expenditures, and the ARC was 6.7%. Total fixed costs, including pension and OPEB contributions and debt service, remain, in our view, a manageable 9% of expenditures. Further increases in funding requirements, however, could put some pressure on the budget in the future.

## Outlook

The stable outlook reflects Standard & Poor's opinion of Onondaga County's solid economic base, strong financial management practices, willingness to maintain strong general fund reserves, and low overall debt burden. The stability of sales tax collections and the county's ability to address its contingent liabilities, especially the lake cleanup, without straining general fund operations or reserves are ongoing credit considerations. These factors could have an adverse effect on the rating in the long term. We believe the county will likely maintain its fiscal balance; we, however, do not think we will revise the outlook within the next two years.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of June 15, 2011)		
<b>Onondaga Cnty GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Onondaga Cnty GO (CIFG)</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		