

27 JUL 2021

## **Fitch Rates Onondaga Free Public Library, NY Revenue Bonds at 'AA-'; Outlook Stable**

Fitch Ratings - New York - 27 Jul 2021: Fitch Ratings has assigned a 'AA-' rating to the Onondaga Free Public Library Project's \$2.1 million revenue refunding bonds, series 2021, issued by the Onondaga Civic Development Corporation, New York (the IDA).

Fitch has also upgraded the Onondaga Free Library's Issuer Default Rating (IDR) and the Onondaga Free Public Library Project's \$2.1 million civic facility revenue bonds, series 2008, issued by the Onondaga County Industrial Development Agency, New York to 'AA-' from 'A'.

The Rating Outlook is Stable.

The series 2021 bonds will refund all outstanding 2008 bonds for debt service savings without extending maturity.

### **SECURITY**

The bonds are payable from lease payments made by the Onondaga Free Library (OFL) from the levy of a dollar-fixed property tax upon all real property within the town of Onondaga.

### **ANALYTICAL CONCLUSION**

The upgrade to 'AA-' reflects the resolution of Fitch's concerns relating to information quality and financial transparency, which had previously constrained the rating. OFL's five-year record of audited financial statements reflects strong historical performance and supports Fitch's expectation for resilience at the rating level through an operating stress scenario.

The 'AA-' rating incorporates OFL's position as the only public library in its primary service area, funded mainly through voter-approved fixed dollar tax levies; its variable cost structure, which offers it a high degree of operating flexibility; and a robust financial profile, characterized by low leverage relative to its cash flow. Based on its track record of maintaining balanced operations, Fitch expects OFL's financial profile to remain robust in a scenario of stress on its more cyclical revenue sources, which only account for approximately 5% of operating revenues.

## KEY RATING DRIVERS

### Revenue Defensibility: 'Midrange'

Over 95% of OFL's \$1.1 million in operating revenues come from voter-approved tax levies that are set in fixed dollar amounts, in perpetuity, with no statutory limitations on amount. The tax levies are not adjusted for inflation, and increases can only be approved by voter referendum. As the only public library in its primary service area, OFL faces very limited competition for its services, and demand indicators demonstrate little to no volatility. Because they are constituent-approved, increases to the levies are unlikely to affect demand for OFL's services.

### Operating Risk: 'Stronger'

OFL's operating flexibility is high due to a mostly variable cost structure, no supply constraints for labor or resources, and manageable capital needs for the near and medium term. OFL does not rely on cyclical revenue sources, as the fixed tax levies cover the majority of its operating expenses. This means the library can operate at near full capacity even during a stress scenario. For these reasons, Fitch expects OFL to maintain budgetary balance.

### Financial Profile: 'Stronger'

OFL's balance sheet resources and net cash flow are solid relative to its level of debt, supporting a 'stronger' assessment of its financial profile. OFL maintains a solid liquidity cushion relative to operating expenses and both funds available for debt service (FADS) and revenues from the library tax levy provide robust coverage of maximum annual debt service (MADS).

## RATING SENSITIVITIES

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

--While unlikely, upward rating movement is possible should OFL significantly improve and sustain its liquidity and leverage levels to closer to 1x cash/adjusted debt and 0x net debt/funds available for debt service.

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

--Any deterioration in OFL's operating cost flexibility, resulting in pressured financial operations.

--A material decline in property tax collections, or significant underperformance in relation to operating expense trends whether due to an inflationary or other pressured operating environment.

## 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>.

## **CREDIT PROFILE**

OFL is an independent, free association library chartered by the New York State Education Department (NYSED) to serve the residents of the town.

### **Revenue Defensibility**

OFL faces very limited competition for its services, as the only public library in its primary service area, which includes the town, as well as small portions of three neighboring communities. The town serves as a bedroom community to the city of Syracuse (GO bonds rated A by Fitch). Fitch does not rate the town but rates the GO bonds of Onondaga County 'AA+' / Negative, viewing the local economy as diverse with solid socioeconomic indicators (for additional details, see Fitch's report dated June 10, 2020).

Demand for OFL's services declined sharply during the pandemic but have returned to near pre-pandemic levels. The library's largely tax-driven funding base limited exposure to operating volatility.

The town, on behalf of OFL, annually levies and collects a library tax, in a fixed dollar amount, as a separate line item on its tax bill. At \$700,000 in 2020, the levy is by far OFL's largest source of revenue, representing about 66% of its operating revenues in 2020, with the balance coming primarily from a tax levy on three local school districts, as well as fundraising and other smaller revenue sources.

There are no statutory limitations on the amount of the library tax levy, but the levy does not adjust for inflation. Requests to increase the town levy are independently initiated by OFL's board of trustees through voter petition, with implementation of requested increases subject to approval by referendum. Because they are constituent-approved, increases to the levy are unlikely to affect demand for OFL's services. Once approved by voters, the library tax remains at value in perpetuity and cannot be reduced. The last referendum was in 2016, from which OFL increased its township levy revenue by 47%.

Full tax collections are guaranteed by the county, with delinquent tax receipts returned to the county

on April 1 of each year. Pursuant to a fiscal agency agreement between the IDA, the town, OFL and the trustee (M&T Bank), the town remits the library tax directly to the trustee for payment of debt service. Net library taxes are forwarded to OFL for operational purposes only after debt service requirements are met.

Though not pledged to the bonds, the tax levy from the school districts, which accounts for about 29% of OFL's operating revenues, functions substantially the same way as the library tax levy, in that it is set as a fixed dollar amount, in perpetuity, with increases approved by voter referendum. School district levies are somewhat more flexible, as OFL's board can vote independently to place a levy increase on the annual budget referendum for voter approval without the need for a petition. Through this process, OFL obtained a 3% school district levy increase in 2021.

## **Operating Risk**

OFL's cost structure is relatively flexible, as salaries, benefits and related expenses represent about half of operating expenses and two-thirds of its staff are not salaried/full-time. OFL's staff-members are not public employees, they are employed at-will, which gives OFL a strong ability to adjust personnel costs in response to demand shifts. Other major expenses, including acquisitions of books, equipment and furnishings for the facility, are flexible in terms of their timing. Fitch's 'stronger' assessment of OFL's operating risk is also supported by the fact that the library and school district tax levies, which cannot be reduced, covered 100% of the library's operating expenses in each of the past five years.

Management does not report any supply constraints for labor or resources. OFL's access to transportation and utility infrastructure is excellent, by virtue of its proximity to the city of Syracuse in central New York State.

OFL's last major renovation and expansion project occurred in 2010, resulting in manageable capital needs for the near and medium term, limited to routine maintenance items, which are budgeted for as part of operations. Excess funds after the payment of debt service and operating expenses are deposited into a capital reserve fund, and can be used to cover either capital or operating expenditures. To a lesser degree, OFL also benefits from modest philanthropic and grant revenues to fund its capital expenditures. OFL has no plans to issue additional debt, and has not disclosed any major capital plans.

## **Financial Profile**

OFL's available funds (AF), defined as cash and investments not permanently restricted, grew about 25% over the past two years to \$883,000 at YE20. Fitch calculates OFL's adjusted debt at about \$2.2

million at YE20, which primarily includes the outstanding series 2008 bonds. OFL has negligible exposure to operating leases and maintains a defined contribution pension plan. Net of AF, adjusted debt remains positive at approximately \$1.2 million at YE20. Net adjusted debt to FADS of 3.0x in 2020 is consistent with a 'AA' category rating, in light of OFL's 'midrange' revenue defensibility and 'stronger' operating risk assessments.

OFL's leverage is expected to remain below 4.0x through Fitch's stress case scenario, which examines the impact of a temporary stress in the library's cyclical revenue sources. Stressed revenue sources do not include the library tax levy, which is fixed in perpetuity and cannot decline below their voter approved levels. Expense growth under this scenario is expected to be curtailed to meet the constrained revenue base, given the flexibility inherent in OFL's cost structure and its demonstrated track record of producing balanced budgets. Net adjusted debt to FADS is expected to remain near 3.0x by 2025, a level consistent with the 'AA' category, due to lack of additional debt plans. In 2020, FADS provided solid 2.1x coverage of MADS.

OFL maintains a highly liquid asset allocation, with 100% of its investment portfolio held in cash and cash equivalents. AF and FADS of approximately \$361,000 together provided a 1.2x liquidity cushion to total operating expenses in 2018, which is a neutral factor to the rating.

### **Asymmetric Risk Additive Considerations**

OFL's debt profile is a neutral rating factor. The series 2008 bonds represent the library's only outstanding debt. Under the series 2021 refunding, debt service is level at under \$200,000 per year through maturity in 2037, except two years of elevated DS to cover issuance costs that are front-loaded in the amortization schedule. Even so, DS remains at about \$260,000 in these years and coverage is more than adequate under a stress. No additional bonds can be issued supported by the levy used to repay the series 2008 bonds (and subsequent 2021 refunding bonds).

Governance and management is also a neutral rating factor. OFL is governed by an eight- to 15-member board of trustees, representing a diverse cross section of local industry and engaged community members. Trustees may serve no more than three consecutive two-year terms. Officers of the board, which include the president, vice president, treasurer and secretary, may serve no more than two consecutive two-year terms in these positions. OFL's director and assistant director, and a town of Onondaga liaison serve as nonvoting members on the board. Day-to-day operations are managed by an in-house staff, led by a director, who has been with OFL for over a decade and in her current role since October 2011.

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

OFL had an ESG Relevance Score of '5' for financial transparency, a subcategory of governance in Fitch's ESG framework, due to its historical lack of audited financial statements. OFL's now five-year record of audited financial statements, coupled with the proposed continuing disclosure agreement included in the series 2021 bond documents, provides the basis for Fitch's revision of this score to '3' from '5'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Onondaga Free Library (NY)	LT IDR	AA- 	Upgrade	A 
<ul style="list-style-type: none"> <li>Onondaga Free Library (NY) /Civic Facility Revenues/ 1 LT</li> </ul>	LT	AA- 	Upgrade	A 

### RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

### Applicable Criteria

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub.23 Feb 2021\) \(including rating assumption sensitivity\)](#)

### Additional Disclosures

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