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Long Island's Nassau County Can't Catch Break from Bond Analysts.

Long Island's Nassau County has cut 1,600 jobs, reduced its borrowing to pay for tax appeals and renegotiated labor contracts. That's still not enough to restore the faith of some bond analysts.

Nassau, which is refinancing $270 million of debt Tuesday with borrowing costs at the lowest since 2013, had its credit- rating outlook changed to negative by Standard & Poor's last week, indicating it could be downgraded from A+, the fifth- highest investment grade. The company said Nassau exhausted reserves even after the economy recovered from the Great Recession.

The 15th wealthiest county in the United States gets almost 40 percent of its revenue from sales taxes, leaving it vulnerable to a slowing economy, said Ted Molin, senior credit analyst at Wilmington Trust Co., a unit of M&T Bank Corp. that oversees $4 billion of municipal bonds. The company sold its Nassau holdings three years ago.

"Most municipalities that we've looked at have built up reserves, and now seem in a better position than a few years ago to withstand an economic downturn," Molin said. "If a county hasn't gotten its act together by now, when will it ever?"

Nassau, which borders the New York City borough of Queens to the east, is home to wealthy enclaves like Sands Point and Brookville, as well as middle and working class towns like Massapequa and Roosevelt. More than 1.3 million people live in the county, which has the highest median household income among New York's 62 counties at $99,035.

While most local governments have boosted reserves as the economy grew during the last six years, the county is still contending with the legacy of the recession. Its property-tax base has declined 20 percent since 2009, according to Standard & Poor's, as residents and businesses appealed their assessments after real estate prices tumbled. In 2011, a state oversight board imposed a wage freeze after the county failed to balance its budget.

Last year, the county's sales taxes fell below projections by $42 million, equal to about 4 percent of the total annual collections. To be conservative, Nassau estimates the tax will grow just 1.5 percent this year.

County Executive Edward Mangano, a Republican, has worked down the county's backlog of refunds for successful property assessment appeals. Next year, it plans to phase out the annual borrowing that it's been using to pay for them. The county expects that to save $950 million in debt-service costs over 20 years.

Nassau is one of two New York counties responsible for paying the whole tax refund even though property revenue is split between the county, towns and school districts. In other counties, school districts and cities are responsible for their portion of the tax bill that's contested. For decades, Nassau borrowed as much as $100 million annually to pay the appeals.

Nassau has taken “significant steps” to reduce borrowing, but it has to do more to raise revenue and cut spending, said S&P analysts.

Last week, the rating company revised its outlook on Nassau’s $2 billion general-obligation debt to negative because the county had exhausted a $23 million fund balance. S&P rates the county one level higher than Moody’s Investors Service and Fitch Ratings.

“We’re concerned that even during the recovery following the Great Recession, the county has been unable to build reserves to higher levels,” said S&P analyst Ruth Ducret.

The county, which has the third-highest median property taxes in New York, raised them by about $30 million last year.

Eric Naughton, Nassau’s deputy county executive for finance brushed off S&P’s outlook change, saying the company didn’t lower its rating on the county’s debt. He expects strong demand for the securities being sold Tuesday, which will save the county $14 million.

“Our first goal is to keep expenses down,” Naughton said. The county increased recurring revenue by $46 million for 2016, mostly through real estate and drivers’ fees.

The spread, or risk premium, on frequently traded Nassau bonds maturing in 2039 in block sizes between $500,000 and $1 million have declined to 1.38 percentage point over top-rated debt from 1.65 percentage point over the last four months, according to data compiled by Bloomberg.

“We understand their concerns, but the county, we’re able to manage even with the narrow reserves,” Naughton said of S&P. “We have very proactive management and we’re doing many things to improve our structural balance.”

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