

## CREDIT OPINION

13 December 2016

### New Issue

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## Village of Harrison, NY

New Issue - Moody's Upgrades Harrison, NY GOs to Aaa;  
 Outlook stable

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Village of Harrison, New York's \$9.3 million Public Improvement (Serial) Bonds, 2016 Series A and \$6.5 million Public Improvement Refunding (Serial) Bonds, 2016 Series B. Concurrently, we have upgraded to Aaa from Aa1 the rating on the village's outstanding General Obligation debt which totals \$67.1 million. In addition, we have assigned a stable outlook.

The Aaa rating incorporates the village's sizable and affluent tax base that continues to benefit from ongoing commercial and residential development, strong wealth levels, healthy financial position supported by conservative budgetary management, and average debt and pension burdens.

### Credit Strengths

- » Sizeable and affluent tax base with ongoing commercial and residential development
- » Continued growth in reserve and liquidity levels
- » Manageable debt

### Credit Challenges

- » History of tax appeals, resulting in declines in taxable base

### Rating Outlook

The stable outlook reflects the expectation of continued strong financial performance and stability in the local economy.

### Factors that Could Lead to an Upgrade

- » Not applicable

### Factors that Could Lead to a Downgrade

- » Material decline in reserves and liquidity
- » Deterioration of taxable valuation and income and wealth metrics

## Key Indicators

Exhibit 1

<b>Harrison (Village of) NY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 8,686,697	\$ 7,446,766	\$ 7,802,290	\$ 7,748,782	\$ 7,690,414
Full Value Per Capita	\$ 320,507	\$ 272,008	\$ 282,323	\$ 278,513	\$ 271,286
Median Family Income (% of US Median)	204.8%	195.6%	190.9%	193.5%	193.5%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 62,278	\$ 68,375	\$ 67,931	\$ 70,050	\$ 68,029
Fund Balance as a % of Revenues	4.3%	11.7%	17.8%	25.4%	31.4%
Cash Balance as a % of Revenues	17.8%	23.2%	32.1%	34.6%	38.6%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 66,226	\$ 64,112	\$ 65,908	\$ 65,136	\$ 67,077
Net Direct Debt / Operating Revenues (x)	1.1x	0.9x	1.0x	0.9x	1.0x
Net Direct Debt / Full Value (%)	0.8%	0.9%	0.8%	0.8%	0.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	N/A	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.4%	0.8%	0.9%	1.1%

Total full value in fiscal 2016 is \$8,311,967 (in thousands).

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Sizable Tax Base Continues To Benefit From Ongoing Development

The village's tax base continues to benefit from ongoing commercial and residential development due to its favorable location in [Westchester County](#) (Aa1 stable). [Morgan Stanley](#) (A3 stable), [MasterCard Incorporated](#) (A2 stable) and [PepsiCo, Inc.](#) (A1 stable) all have corporate headquarters within the village and continue to invest in expansion and renovation of their facilities. Further commercial growth within the village includes a development agreement with the [Metropolitan Transportation Authority](#) (Aa2 stable) and AvalonBay Communities, Inc. to develop a 570 space parking garage along with retail and high- end residential units, which will begin construction in 2017. Additionally, several multi-family and single-family residential units are under construction including a 421 luxury apartment complex that will replace two vacant office buildings.

These developments will continue to add to the village's assessed valuation and revenue growth. The village's large \$8.3 billion tax base has contracted an average of 0.9% per year over the past five years due largely to successful tax appeals and past real estate stagnation. However, with the ongoing conversion of vacant office space into mixed use development projects, the village's tax base has rebounded with an 8.1% increase in 2016. A 1.9% decline in 2015 reflected negotiation of a 15-year PILOT agreement with PepsiCo. Management expects tax appeals to decrease going forward, and PILOT agreements will continue to augment revenues while protecting the village from future tax certiorari claims.

Residents continue to benefit from employment opportunities within the village, surrounding towns and in nearby [New York City](#) (Aa2 stable). Wealth levels are strong with the village's median family income at 193.5% of the US median, according to the 2014 American Community Survey. The September 2016 unemployment rate of 4.6% is below the state (5.1%) and national (4.8%) rates. Full value per capita is high at \$293,212.

### Financial Operations and Reserves: Sound Financial Position With Healthy Reserves

The village's healthy financial position will continue to strengthen based on surplus operations reflecting the villages strong fiscal management and underlying economy. The village has achieved operating surpluses in each of the past six years, including a \$3.6 million surplus in fiscal 2015. The surplus in 2015 was mostly due to an increase in building permit revenues and expenditure savings

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from 14 unfilled positions which were included in the budget. The available Operating Fund balance (including the General, Debt Service, Highway, Special Districts, and Public Library Funds) at the end of fiscal 2015 grew to a healthy \$21.3 million, or 31.4% of operating revenues, up from \$17.9 million or 25.4%. Property taxes are the main source of operating revenues at 76.4%. Sales tax is the largest source of operating revenues at 6.8%.

The fiscal 2016 budget included a 1.45% tax levy increase (within the village's cap) and no use of fund balance. Management projects a \$2.5 million operating surplus in fiscal 2016 due to an increase in mortgage tax aid, court fees, and unfilled budgeted positions. Additionally, ongoing development in the village has enhanced building permit fee revenues in recent years. For fiscal 2017, management again anticipates balancing the budget with no draws on reserves.

#### LIQUIDITY

Cash and investments at the end of fiscal 2015 were strong at \$26.3 million, or 38.6% of operating revenues. This represents a significant improvement from the net cash position at the end of fiscal 2010 of \$8.9 million, or 14.8% of operating revenues.

#### Debt and Pensions: Average Debt and Pension Burdens

The village's debt burden will likely remain average given manageable additional debt plans and continued tax base growth. The village's direct debt burden is average at 0.9% of full value while overall debt burden, inclusive of overlapping entities, increases to 1.8% of full value. Post-sale, the village will have a total of \$71.1 million of GO debt. The village expects to issue five million of debt annually for ongoing capital improvements, however Management is committed not to add more debt than the village will pay down in each year after this issuance.

#### DEBT STRUCTURE

All of the village's debt is fixed rate. Amortization is average, with 72.2% repaid within ten years.

#### DEBT-RELATED DERIVATIVES

The village is not party to any swap contracts or other derivative agreements.

#### PENSIONS AND OPEB

The pension burden will remain average as contribution rates are expected to stabilize and the village has historically made its required contributions to its pension plans. The village participates in the New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), two multi-employer, defined benefit retirement plans sponsored by the [State of New York](#) (Aa1 stable). For fiscal 2015, employer contributions to the plans totaled \$3.6 million, or approximately 5.6% of operating expenditures. The village's combined adjusted net pension liability (ANPL) in fiscal 2015, under Moody's methodology for adjusting reported pension data, was \$93.9 million, or an average 1.38 times operating revenues. Moody's uses the ANPL to improve comparability of reported pension liabilities. The adjustments are not intended to replace the village's reported liability information, but to improve comparability with other rated entities. We determined the village's share of liability for the state-run plans in proportion to its contributions to the plans.

The village provides other post employment benefits (OPEB) to retirees, the cost of which will remain moderate given the financing of OPEB on a pay-go basis. In fiscal 2015, the village contributed \$5.8 million to OPEB costs, or a moderate 8.9% of operating expenditures. The total unfunded liability is \$262 million as of January 1, 2015. Fixed costs, including debt service, required pension contributions, and OPEB liabilities, totaled 24.8% of fiscal 2015 operating expenditures.

#### Management and Governance: Conservative Budgetary Management

Management's commitment to conservative budgeting will continue to support the village's strong financial position. The village is currently exceeding its informal target to maintain the Operating Fund balance at a minimum 20% of budgeted expenditures. Additionally, the village's board is committed to balancing budgets without the use of reserves or one-time revenue sources, staying within the property tax levy cap, budgeting revenues and expenditures conservatively, seeking ways to increase recurring revenues and decrease recurring expenditures, and reducing staff through attrition. Village management expects the board to adopt a formal fund balance policy in 2017.

New York cities have an institutional framework score of "A," or moderate. Revenues are highly predictable, as property taxes are usually the largest revenue source, followed by, sales and mortgage taxes, as well as building permit revenue. Cities have a moderate

revenue raising ability, as they can increase property tax revenues above the tax cap with a 60% vote of the local legislative body. Expenditures vary across the state but primarily consist of personnel costs, which are moderately predictable. Expenditure reduction ability is low given the presence of strong collective bargaining groups and the Triborough Amendment which enhances collective bargaining powers.

### Legal Security

The bonds are secured by a general obligation pledge, as limited by the Property Tax Cap - Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

### Use of Proceeds

The 2016 Series A bonds will be used for various capital improvements including upgrades to the Westchester Joint Water district. The 2016 Series B refunding bonds will refund the village's outstanding 2008 Series A and B bonds for a net present savings of 5.7%.

### Obligor Profile

The Village of Harrison is coterminous with the town of Harrison and located within Westchester County. The total population is 28,348.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

### Ratings

Exhibit 2

#### Harrison (Village of) NY

Issue	Rating
Public Improvement (Serial) Bonds, 2016 Series A	Aaa
Rating Type	Underlying LT
Sale Amount	\$9,349,300
Expected Sale Date	01/05/2017
Rating Description	General Obligation Limited Tax
Public Improvement Refunding (Serial) Bonds, 2016 Series B	Aaa
Rating Type	Underlying LT
Sale Amount	\$6,535,000
Expected Sale Date	01/05/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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