

CREDIT OPINION

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Harrison (Village of) NY

Update to credit analysis

Summary

The Village of Harrison (Aaa stable) benefits from a sizable and affluent tax base that continues to benefit from ongoing commercial and residential development and a strong resident wealth profile. The village further benefits from a 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
- » Strong financial position
- » Manageable debt

Credit challenges

- » History of tax appeals
- » Elevated fixed costs

Rating outlook

The stable outlook reflects our expectation of continued strong financial and economic performance.

Factors that could lead to a downgrade

- » Material decline in reserves and liquidity
- » Deterioration of taxable valuation and resident incomes and wealth

Key indicators

Exhibit 1

Harrison (Village of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$7,802,290	\$7,748,782	\$7,690,414	\$8,311,967	\$8,258,919
Population	27,636	27,822	27,998	28,082	28,082
Full Value Per Capita	\$282,323	\$278,513	\$274,677	\$295,989	\$295,989
Median Family Income (% of US Median)	190.9%	193.5%	189.0%	186.7%	186.7%
Finances					
Operating Revenue (\$000)	\$67,931	\$70,050	\$68,029	\$71,357	\$71,202
Fund Balance (\$000)	\$12,106	\$17,785	\$21,340	\$28,852	\$32,581
Cash Balance (\$000)	\$21,813	\$24,263	\$26,253	\$34,732	\$66,657
Fund Balance as a % of Revenues	17.8%	25.4%	31.4%	40.4%	45.8%
Cash Balance as a % of Revenues	32.1%	34.6%	38.6%	48.7%	93.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$65,908	\$65,136	\$67,077	\$62,109	\$69,315
3-Year Average of Moody's ANFL (\$000)	\$60,510	\$71,273	\$84,088	\$84,922	\$88,966
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	1.0x	0.9x	1.0x
Net Direct Debt / Full Value (%)	0.8%	0.8%	0.9%	0.7%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.0x	1.2x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.8%	0.9%	1.1%	1.0%	1.1%

Sources: Moody's Investors Service; Harrison's audited financial statements

The Village of Harrison is located within Westchester County (Aa1 negative). The total population is 28,082.

Detailed credit 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 negative). Morgan Stanley (A3 stable), MasterCard Incorporated (A2 stable) and PepsiCo, Inc. (A1 stable) all have corporate headquarters or major offices within the village and continue to invest in expansion and renovation of their facilities. Further commercial growth is likely as the village has 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 2018. Additionally, several multi-family developments 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, \$8.4 billion tax base has grown an average of 1.4% per year over the past five years, including 1.5% in 2018, after 0.6% decrease in 2017. With the ongoing conversion of vacant office space into mixed use development projects, management expects the base to grow going forward. PILOT agreements will continue to augment property taxes 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). Resident incomes and wealth are strong. The village's median family income is 186.7% of the US median, according to the 2016 American Community Survey. Full value per capita is high at \$293,255. The August 2018 unemployment rate of 4.3% is on par with the state (4.1%) and national (3.9%) rates.

Financial Operations and Reserves: Sound financial position with healthy reserves

The village's healthy financial position will continue to strengthen based on operating surpluses driven by the village's strong fiscal management and underlying economy. The village has achieved operating surpluses in each of the past five years, including a \$1.9 million surplus in fiscal 2017. The surplus in 2017 was mostly due to positive variances in licenses and permits, hotel tax as well as fines and forfeitures. The available Operating Fund balance (including the General, Debt Service, Highway, Special Districts, and Public Library Funds) at the end of fiscal 2017 totaled a healthy \$32.6 million, or 45.8% of operating revenues, up from \$28.9 million or 40.4% in fiscal 2016. Property taxes are the main source of operating revenues at 75.5%.

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The fiscal 2018 budget included a 2.98% tax levy increase (within the village's cap) and no use of fund balance. Management projects an operating surplus in fiscal 2018 due largely to increases in mortgage tax (allocated by the state), hotel taxes, interest and penalties on property taxes, building fees and sales tax revenue.

The fiscal 2019 budget increased by 3.34% and was balanced with a tax levy increase (under the state cap) without appropriation of any fund balance.

LIQUIDITY

Cash and investments at the end of fiscal 2017 were strong at \$66.7 million, or 45.8% of operating revenues. A significant portion of the village's cash is overstated, with approximately \$48 million due to the school district.

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 1% of full value while overall debt burden, inclusive of overlapping entities, increases to 1.7% of full value. The village expects to issue \$5 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 below-average, with 65.3% repaid within ten years.

DEBT-RELATED DERIVATIVES

The village is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The village has historically made its required contributions to its pension plans and the pension burden will remain average. 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 2017, employer contributions to the plans totaled \$4.5 million, or approximately 6.3% of operating expenditures. The village's three year average adjusted net pension liability (ANPL) in fiscal 2017, under Moody's methodology for adjusting reported pension data, was \$89 million, or an average 1.25 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.

Negatively, New York State law does not allow local governments to fund a trust for OPEB. While legislation to allow local governments to fund a trust is currently under discussion, the village continues to make their pay-as-you-go annual OPEB payment, which in 2017 was \$6.5 million (9.3% of revenues). Absent legislation, or changes to benefits, the village's liability (\$287 million at end of fiscal 2017) will continue to grow placing pressure on future budgets.

Total fixed costs comprised of pensions, OPEB and debt service was an elevated 28% of operating revenues.

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.

New York cities, villages and townships have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before exemptions and rollovers are added). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5% and 10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough

Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5% and 10% annually.

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