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CREDIT OPINION

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✓ Rate this Research

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Harrison (Village of) NY

Update to credit analysis

Summary

The Village of Harrison (Aaa), NY's credit profile benefits from a sizable and affluent tax base with ongoing commercial and residential development, a very strong financial position supported by conservative budget practices and manageable debt and pension burdens. The village's fixed costs are somewhat elevated.

Credit strengths

- » Sizeable and affluent tax base with ongoing commercial and residential development
- » Strong financial position
- » Manageable debt

Credit challenges

- » 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

Key indicators

Exhibit 1

| Harrison (Village of) NY | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------------|-------------|-------------|-------------|-------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$7,748,782 | \$7,690,414 | \$8,311,967 | \$8,258,919 | \$8,383,290 |
| Population | 27,822 | 27,998 | 28,082 | 28,319 | 27,896 |
| Full Value Per Capita | \$278,513 | \$274,677 | \$295,989 | \$291,639 | \$300,519 |
| Median Family Income (% of US Median) | 193.5% | 189.0% | 186.7% | 194.4% | 194.4% |
| Finances | | | | | |
| Operating Revenue (\$000) | \$70,050 | \$68,029 | \$71,357 | \$71,202 | \$73,935 |
| Fund Balance (\$000) | \$17,785 | \$21,340 | \$27,522 | \$31,165 | \$36,684 |
| Cash Balance (\$000) | \$24,263 | \$26,253 | \$34,732 | \$66,657 | \$43,853 |
| Fund Balance as a % of Revenues | 25.4% | 31.4% | 38.6% | 43.8% | 49.6% |
| Cash Balance as a % of Revenues | 34.6% | 38.6% | 48.7% | 93.6% | 59.3% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$65,136 | \$67,077 | \$62,109 | \$69,315 | \$83,355 |
| 3-Year Average of Moody's AEPH (\$000) | \$71,273 | \$84,088 | \$84,922 | \$88,966 | \$83,691 |
| Net Direct Debt / Full Value (%) | 0.8% | 0.9% | 0.7% | 0.8% | 1.0% |
| Net Direct Debt / Operating Revenues (x) | 0.9x | 1.0x | 0.9x | 1.0x | 1.1x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 0.9% | 1.1% | 1.0% | 1.1% | 1.0% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | 1.0x | 1.2x | 1.2x | 1.2x | 1.1x |

Fiscal year end 12/31
 Source: Moody's Investor Service and Village of Harrison, NY financial statements

Profile

The Village of Harrison is located in Westchester County (Aa1) 25 miles northeast of mid-town Manhattan. The village has approximately 28,300 residents.

Detailed credit consideration

Economy and tax base: Large tax base and strong economy that benefits from proximity to New York City

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 (A1 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 584 space parking garage along with retail and high-end residential units, on which construction is underway. 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 a 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 appeals.

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: Surplus financial operations and high reserve levels

The village's financial position is strong with continued operating surpluses supported by conservative fiscal management and a strong economy. The village has achieved operating surpluses in each of the past five years, including a \$4.5 million surplus in fiscal 2018. The surplus in 2018 was primarily due to positive variances in property tax, sales tax, and licenses and permits. The available Operating Fund balance at the end of fiscal 2018 totaled \$36.7 million, or a very strong 49.6% of operating revenues. Property taxes are the main source of operating revenues accounting for 74.9% of fiscal 2018 operating revenues.

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Management expects to end fiscal 2019 with a solid surplus. The fiscal 2019 budget increased by 3.34%, was balanced with a tax levy increase (under the state cap) and included no appropriation of fund balance. Operating revenues are expected to come in \$4.4 million over budget, or 27%, led by mortgage tax receipts, fines and forfeitures, cable tv tax, and hotel taxes.

The fiscal 2020 budget increases by 5.29% to approximately \$57 million including a 2.85% tax increase, the village remains under the tax cap. The primary expense drivers remain major medical costs and salaries.

LIQUIDITY

Cash and investments at the end of fiscal 2018 were strong at \$43.9 million, or 59.3% of operating revenues. A significant portion of the village's cash is overstated, with approximately \$50.3 million due to the school district and \$45 million in net taxes receivable.

Debt, pension, and OPEB: Modest debt and pension liabilities

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 1.1% of full value. The overall debt burden, inclusive of overlapping entities, is also manageable at 2.1% of full value. The village expects to issue \$5 million of debt annually for ongoing capital improvements, however management is committed not to adding more debt than the village will pay down in each year.

DEBT STRUCTURE

All of the village's debt is fixed rate. Amortization is below-average, with 66% repaid within ten years as of fiscal 2018. debt service is 12% of fiscal 2018 revenues.

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 its pension burden is 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

Exhibit 2

Debt and long term liabilities as of fiscal 2018

| | \$\$\$ (000) | % of Operating Revenues | Discount Rate |
|--|-----------------|-------------------------|---------------|
| Operating Revenue | 57,850 | | |
| Reported Unfunded Pension Liability | 6,285 | 10.9% | 7.00% |
| Moody's Adjusted Net Pension Liability | 78,036 | 134.9% | 4.12% |
| Reported Net OPEB Liability | 254,243 | 439.5% | - |
| Moody's Adjusted Net OPEB Liability | 230,562 | 398.6% | - |
| Net Direct Debt | 83,355 | 144.1% | - |
| Pension Contribution | 4,369 | 7.6% | - |
| OPEB Contribution | 5,975 | 10.3% | - |
| Debt Service | 8,745 | 15.1% | - |
| Total Fixed Costs | 19,089 | 33.0% | - |

Source: Moody's Investor Service and Village of Harrison, NY financial statements

Favorably, the village's 2018 pension contribution exceeded "tread water", the amount required to prevent the unfunded liability from increasing assuming realization of all plan assumptions, and the plan is fully funded on a reported basis. Its adjusted net pension liability of \$78 million represents a very modest 1% of full value and is approximately 1x fiscal 2018 operating revenues. The adjusted pension liability is based on discounting future liabilities at 4.12%, rather than 7% assumed by the pension plan. Failure to realize the assumed rate of return on pension assets would result in higher future pension contributions.

The district funds retiree health care (OPEB) on a pay-go basis. Fiscal 2018 OPEB expense totaled \$5.9 million representing 10% of revenues. Because the district is not setting aside funds for OPEB as benefits accrue, which is not permitted under New York State law although changing that is under discussion in the legislature, these costs will likely increase as the number of retirees goes up and they

age. Absent legislation or changes to benefits, the district's OPEB liability, of \$231 million on an adjusted basis as of the last actuarial valuation, will continue to grow.

Fixed costs comprised of pensions, OPEB and debt service accounted for an elevated 27% of fiscal 2018 operating revenues. Further elevation of fixed costs resulting from increased pension and OPEB contributions represents a possible future credit challenge.

Management and governance

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 Villages have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Villages 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 adjusting for exemptions and rollovers). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% 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 5-10% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

General Obligation methodology scorecard

Harrison (Village of) NY

| Rating Factors | Measure | Score |
|---|-------------|-------|
| Economy/Tax Base (30%) ^[1] | | |
| Tax Base Size: Full Value (in 000s) | \$8,462,591 | Aa |
| Full Value Per Capita | \$303,362 | Aaa |
| Median Family Income (% of US Median) | 194.4% | Aaa |
| Finances (30%) | | |
| Fund Balance as a % of Revenues | 49.6% | Aaa |
| 5-Year Dollar Change in Fund Balance as % of Revenues | 33.2% | Aaa |
| Cash Balance as a % of Revenues | 59.3% | Aaa |
| 5-Year Dollar Change in Cash Balance as % of Revenues | 29.8% | Aaa |
| Management (20%) | | |
| Institutional Framework | A | A |
| Operating History: 5-Year Average of Operating Revenues / Operating Expenditures | 1.1x | Aaa |
| Debt and Pensions (20%) | | |
| Net Direct Debt / Full Value (%) | 1.1% | Aa |
| Net Direct Debt / Operating Revenues (x) | 1.3x | A |
| 3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%) | 1.0% | Aa |
| 3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x) | 1.1x | A |
| Scorecard-Indicated Outcome | | Aaa |
| Assigned Rating | | Aaa |

[1] Economy measures are based on data from the most recent year available.

[2] Notching factors are specifically defined in the US Local Government General Obligation Debt methodology

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: Moody's Investor Service and US Census Bureau

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