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Harrison (Village of) NY

Update to credit analysis

Summary

The credit position for Harrison is extremely strong, and its Aaa rating is much higher than the median rating of Aa3 for municipalities nationwide. The notable credit factors include a considerable tax base, a very strong wealth and income profile and a robust financial position. It also reflects an affordable debt burden and a mid-ranged pension liability.

We regard the coronavirus outbreak as a social risk under our ESG framework, given substantial public health and safety implications. We do not see any material and immediate credit risks for the village. However, the village tracked $440,000 in expenses directly related to the Coronavirus; likewise the pandemic has resulted in revenue declines from sales tax, court fines, and hotel tax. Other revenue declines included a modest cut to state aid which is a very small portion of the budget (3.5%) and revenue from parks and recreation charges which are largely offset by expense cuts to parks and recreation programs that were not provided during the pandemic. Positively, the village has benefitted from both building and permit fees and Mortgage fees being over budget and somewhat offsetting the losses. The village continues to maintain strong fund balance level, which provides it with liquidity and operational flexibility which it expects will offset any pressure related to a delay or modest declines in revenues. The coronavirus situation is rapidly evolving, and the longer-term impact will depend on both the severity and duration of the crisis. If our view of the village's credit quality changes, we will update our opinion at that time.

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

» Deterioration of taxable values

Key indicators

Exhibit 1

Harrison (Village of) NY

Harrison (Village of) NY	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$7,690,414	$8,311,967	$8,258,919	$8,383,290	$8,462,591
Population	27,998	28,082	28,319	27,956	28,943
Full Value Per Capita	$274,677	$295,989	$291,639	$299,874	$292,388
Median Family Income (% of US Median)	189.0%	186.7%	194.4%	204.2%	204.2%
Finances					
Operating Revenue ($000)	$68,029	$71,357	$71,202	$73,935	$77,373
Fund Balance ($000)	$21,340	$27,522	$31,165	$36,684	$33,186
Cash Balance ($000)	$26,253	$34,732	$66,657	$43,853	$42,870
Fund Balance as a % of Revenues	31.4%	38.6%	43.8%	49.6%	42.9%
Cash Balance as a % of Revenues	38.6%	48.7%	93.6%	59.3%	55.4%
Debt/Pensions					
Net Direct Debt ($000)	$67,077	$62,109	$69,315	$83,355	$89,016
3-Year Average of Moody's ANPL ($000)	$84,088	$84,922	$88,966	$83,691	$83,547
Net Direct Debt / Full Value (%)	0.9%	0.7%	0.8%	1.0%	1.1%
Net Direct Debt / Operating Revenues (x)	1.0x	0.9x	1.0x	1.1x	1.2x
Moody's - ANPL (3-yr average) to Full Value (%)	1.1%	1.0%	1.1%	1.0%	1.0%
Moody's - ANPL (3-yr average) to Revenues (x)	1.2x	1.2x	1.2x	1.1x	1.1x

Fiscal year end December 31

Source: Audited financial statements, US Census Bureau, Moody's Investors Service

Profile

The Village of Harrison is located within Westchester County (Aa1 negative). The village has approximately 27,956 residents. The Village of Harrison is located in southern Westchester County in New York's Hudson Valley, approximately 30 miles northeast of New York City (Aa2 negative). The county has a population of 968,815 and a high population density of 2,238 people per square mile. The county's median family income is $119,798 (1st quartile) and the August 2020 unemployment rate was 11.1% (4th quartile) [1]. The largest industry sectors that drive the local economy are health services, retail trade, and finance/insurance. We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Harrison. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Harrison changes, we will update our opinion at that time.

Detailed credit considerations

Economy and tax base: The village benefits from migration out of New York City

The economy and tax base of the Village of Harrison are healthy and consistent with the assigned rating of Aaa. The full value ($8.5 billion) is above the US median, and grew markedly from 2015 to 2019. Fiscal 2020 property values trends continue to show modest growth as the village benefits from a number of larger scale projects coming online and sales activity in line with the villages fiscal 2019 levels. The village reports fiscal 2020 median home sales price is $1 million with the average sale price at $1.3 million, much of the growth of sales volume is attributed to migration out of New York City The village's full value per capita ($292,388) is much stronger than other Moody's-rated municipalities nationwide. Lastly, the median family income is a robust 204.2% of the US level. While the coronavirus is driving an unprecedented economic slowdown nationwide; the village is benefitting from its proximity to New York City as residents and companies in the city look for less dense places to live and work.

Financial operations and liquidity: Prudent management drives surplus operations and maintains solid liquidity

Harrison's financial position is very healthy and is in line with its Aaa rating. Fiscal 2019 ended positively by adding to fund balance and cash reserves. The fiscal 2019 budget did not use fund balance. The fund balance as a percent of operating revenues (42.9%) is a little stronger than the US median, and increased materially between 2015 and 2019.

The village estimates that fiscal 2020 operations will end with a surplus of slightly more than $1 million and expects to grow its fund balance at fiscal year end 2020. Revenues, after estimating for losses due to the pandemic expected to be approximately $970,951 short of budget, due in large part to the closure of the courts for three months and delay in the processing of fines which is expect to result in a $1.4 million lag in revenues expected to be booked in fiscal 2020. However, any lost revenues are expected to be made up in fiscal 2021 as the courts work through their backlog. Other significant revenue declines include sales tax which is forecast to be $358,757 and hotel tax at $332,621 below budget. This in part was offset by above budget performance of mortgage tax aid and building permits at $340,066 and $583,875 respectively. Expenses savings of $3 million reflect nearly $600,000 in savings from open positions, $475,000 savings from closed recreation programs, and $500,000 in health insurance savings, among many other savings.

Looking forward to fiscal 2021 the village is working to keeping the tax rate flat, while balancing the budget. The town expects to use a modest amount of fund balance in response to a higher than expected retirement costs. However this should not result in a decrease in fund balance as the village expects to add more than in fiscal 2020 than it will be using in the fiscal 2021 budget to offset these costs.

Liquidity

The village's fiscal 2019 cash balance of $43 million was 55.4% of operating revenues and above other Moody's-rated municipalities nationwide. This provides addition operating flexibility.

Debt and other long term liabilities: High debt burden drives elevated fixed costs, but they remain manageable

Overall, Harrison's debt and pension liabilities are manageable. The village's net direct debt to full value (1.1%) is consistent and was flat from 2015 to 2019, despite being somewhat weaker than the national Aaa median. In addition, the Moody's-adjusted net pension liability to operating revenues (1.1x) favorably is slightly lower than the US median.

Legal security

The bonds are secured by the village's general obligation pledge as limited by New York State's legislated cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011). We consider the outstanding debt to be GOLT because of limitations under New York State law on property tax levy increases. The lack of distinction between the GOLT rating and the GOULT-equivalent issuer rating reflects the village board's ability to override the cap and the town's pledge of its faith and credit in support of all GO debt.

Debt structure

All of the village's debt is fixed rate. Debt service is elevated 13% of fiscal 2019 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 (Aa2 stable).

Exhibit 2

Debt and long term liabilities are elevated as are annual fixed costs, however they remain manageable at this time

2019	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	77,373	n/a	n/a
Reported Unfunded Pension Liability	9,737	13%	6.96%
Moody's Adjusted Net Pension Liability	92,882	120%	3.84%
Reported Net OPEB Liability	220,390	285%	2.75%
Moody's Adjusted Net OPEB Liability	200,570	259%	3.22%
Net Direct Debt	89,016	115%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	382,468	494%	
Pension Contribution	4,296	5.55%	n/a
OPEB Contribution	7,489	9.68%	n/a
Debt Service	9,563	12.36%	n/a
Total Fixed Costs	21,349	27.59%	n/a

Source: Moody's Investors Service and issuer financial statements

Favorably, the village's 2019 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 $92.8 million represents a very modest 1.1% of full value and is approximately 1.2x fiscal 2019 operating revenues. The adjusted pension liability is based on discounting future liabilities at 3.84%, rather than 6.96% assumed by the pension plan. Failure to realize the assumed rate of return on pension assets would result in higher future pension contributions.

The village funds retiree health care (OPEB) on a pay-go basis. Fiscal 2019 OPEB expense totaled $7.5 million representing 10% of revenues. Because the village 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 village's OPEB liability, of $201 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 27.6% of fiscal 2019 operating revenues. Further elevation of fixed costs resulting from increased pension and OPEB contributions represents a possible future credit challenge.

ESG considerations

Environmental

There are no major environmental considerations.

Social

Outside of the coronavirus information discussed above, there are no major social considerations.

Governance

Management maintains long term capital planning and budgets conservatively as evidenced by a history of operating surpluses.

New York villages have an institutional framework score [2] of "Aa", which is strong. 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. However, this cap can be overridden at the local level, without voter approval and many local governments have done so when necessary. Unpredictable revenue fluctuations tend to be low, reflected in expense growth being under 5% on average across the whole sector. Fixed and mandated costs are generally below 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be low, however, reflective in expense growth being under 5% on average across the whole sector.

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

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	$292,388	Aaa
Median Family Income (% of US Median)	204.2%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	42.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	19.9%	Aa
Cash Balance as a % of Revenues	55.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	24.0%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
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)	1.2x	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.
Sources: US Census Bureau, Moody's Investors Service

Endnotes

1 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

2 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See US Local Government General Obligation Debt (July 2020) methodology report for more details.

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