New Issue: Moody's upgrades Village of Harrison, NY to Aa2 from Aa3

Global Credit Research - 24 Oct 2013

Assigns Aa2 rating to $8.5M Ser. 2013 bonds

HARRISON (VILLAGE OF) NY
Cities (including Towns, Villages and Townships)
NY

Moody's Rating

ISSUE	RATING
General Obligation Public Improvement (Serial) Bonds, 2013	Aa2

Sale Amount	$8,463,063
Expected Sale Date	11/06/13
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, October 24, 2013 --Moody's Investors Service has upgraded to Aa2 from Aa3 the General Obligation rating of the Village of Harrison (NY), affecting $64 million of long term debt outstanding. Concurrently, Moody's has assigned the Aa2 rating to the village's $8.5 million General Obligation Bonds, Series 2013. 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). Proceeds from the bonds will finance improvements to water infrastructure, drainage and tax certioraris.

SUMMARY RATING RATIONALE

The Aa2 rating incorporates the village's improved financial position, sizeable and affluent residential and commercial tax base, and a manageable debt burden with a lower than average pension liability.

STRENGTHS

-Large tax base with strong wealth levels

-Strong and improving financial position

-Improving economically sensitive revenues

CHALLENGES

-Recent history of structurally imbalanced financial operations

-Recent tax appeals, leading to decreases in taxable base

DETAILED CREDIT DISCUSSION

STRONG AND IMPROVING FINANCIAL POSITION

Harrison's financial position is expected to continue to improve following a significant deficit financial position. The improving finances are due to the implementation of various expenditure controls and budgetary adjustments that have resulted in consecutive surpluses and increased reserves. Fiscal 2013 is expected to result in a fourth consecutive surplus, bringing total Operating Fund reserves (including Town and Village General Funds, Debt

Service Fund, Highway, Special District Fund, and Library Fund) to an estimated $12.8 million, or 18% of revenues, which is up significantly from a negative $4.4 million (-8.4% of operating revenues) in fiscal 2009. To offset consecutive deficits from 2003 through 2009, the village board approved a number of measures to improve the financial trend, including a 10% property tax increase, conservative budget estimates, and the elimination of approximately 40 positions, which reduced salary expenditures by over $4 million annually.

Fiscal 2012 ended with a $4.3 million General Fund surplus as a result of positive revenue variances, including a $500,000 reimbursement from FEMA related to Hurricane Irene, bringing total General Fund balances to $6.6 million or 12.6% of revenues. The village derived the majority of its revenues from local property taxes (70%), adding stability to village operations.

The fiscal 2013 budget included a 3% levy increase, complying with the statutory levy cap without appropriation of fund balance. State aid remained flat while annual pension costs are increased by $300,000. By year end the Village expects to report a large $2.8 million operating surplus. The favorable surplus in 2013 was primarily the result of higher than budgeted building permits ($2 million variance), and unbudgeted FEMA reimbursements related to Hurricane Sandy. The Highway Fund is expected to produce a $1 million surplus, bringing total Highway Fund reserves to $1.7 million, or 32% of Highway Fund revenues.

The fiscal 2014 preliminary budget includes a levy increase that complies with the 2% and does not appropriate fund balance to balance. Management's more conservative approach to budgeting is noted and the maintenance of structurally balanced finances will be considered during future reviews.

AFFLUENT AND ESTABLISHED RESIDENTIAL COMMUNITY

The village is expected to continue to benefit from its affluent $7.8 billion tax base, given its location approximately 25 miles north of New York City (GO rated Aa2 stable) in Westchester County (GO rated Aaa negative). The economy benefits from a sizeable commercial component, including corporate headquarters for Morgan Stanley (long term rated Baa1/rating under review), Mastercard Incorporated (long term rated A3/stable), and PepsiCo, Inc. (long term rated A1/stable outlook). Although Nokia Oyj (long term rated B1/Developing) relocated its headquarters facility out of town in 2011, Hestow Biotechnology has since occupied a large portion of the space. Positively, new commercial and residential development has been completed, including PepsiCo's 140,000 square foot expansion, in addition to other notable expansions at Morgan Stanley and Memorial Sloan-Kettering Cancer Center (Aa3 stable outlook). Full valuation has declined over the past several years due to ongoing real estate market stagnation, resulting in a 14.3% decrease in fiscal 2012 but has increased by 4.5% in 2013. Similarly, assessed valuation has decreased by a cumulative 10% from 2007 through 2013 due to the implementation of PILOT agreements for new development and successful tax appeals. Resident wealth levels have increased steadily since 1980 and, as of the 2010 census, are nearly two times state levels. Strong housing values and the presence of substantial commercial properties have contributed to a high full value per capita of $280,184 in 2013.

AVERAGE DEBT BURDEN WITH BELOW AVERAGE PENSION LIABILITY

The village's debt position is expected to remain manageable given a modest direct debt burden (0.9% of full valuation) and limited future borrowing plans. The village's overall debt burden, including all overlapping obligations, is a below-average 1.1% of full valuation. Management anticipates the village's level of near term debt issuance to remain manageable with an expectation of $4 million to $5 million per year over the next two years to fund various ongoing capital improvements. On an annual budgetary basis, debt service accounted for 11.5% of operating expenditures in fiscal 2012. All bonds are fixed rate and the village is not party to any derivative agreements.

The village participates in two Multi-employer cost sharing defined benefit pension plans. The village's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $35.3 million or a lower than average 0.6 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported pension liability information.

WHAT COULD MAKE THE RATING GO UP:

-Significant improvement in the village's financial position

-Material reduction in debt burden

WHAT COULD MAKE THE RATING GO DOWN:

-Deterioration of the village's financial position

-Significant decline in tax base size or socio-economic profile

-Material increase in debt burden

KEY STATISTICS:

2010 Population: 27,472 (+13.7% from 2000)

2013 Full Valuation: $7.78 billion

2013 Full Value Per Capita: $280,184

Per Capita Income (as % of NY and US): $62,780 (203.9% and 233%)

Median Family Income (as % of NY and US): $125,556 (187.2% and 202%)

2012 Direct Debt Burden: 0.9%

Payout of Principal (10 years): 77.0%

FY12 General Fund Balance: $6.6 million (12.6% of General Fund revenues)

Long term rated bonds outstanding: $64.1 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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