New Issue: Moody's upgrades Village of Harrison, NY to Aa1 from Aa2

Global Credit Research - 05 Dec 2014

Assigns Aa1 to $4.8M GO bonds

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

Moody's Rating

ISSUE	RATING
Public Improvement (Serial) Bonds, 2014	Aa1
Sale Amount $4,757,880	
Expected Sale Date 12/11/14	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NOTE: On December 08, 2014, the press release was corrected as follows: In the description of issuance, changed the expected sale date from 12/23/14 to 12/11/14. Revised release follows.

NEW YORK, December 05, 2014 --Moody's Investors Service has upgraded the Village of Harrison, NY's general obligation rating to Aa1 from Aa2, affecting $60.4 million in outstanding rated debt. Concurrently, Moody's has assigned a Aa1 rating to the village's $4.8 million Public Improvement (Serial) Bonds, 2014. 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 the purchase of machinery and equipment, library improvements, road work, and tax certioraris.

SUMMARY RATING RATIONALE

The Aa1 rating incorporates the village's improved financial position, sizeable and affluent tax base which is expected to benefit from commercial development in the near term, and a manageable debt burden with lower than average pension liability.

STRENGTHS

-Large tax base expected to benefit from commercial development with strong wealth levels

-Healthy financial position bolstered by recent reserve growth

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 conservative revenue budgeting that have resulted in consecutive surpluses and increased reserves. Notably, the village has produced balanced budgets without fund balance appropriations in its past three budgets. Fiscal 2014 is expected to result in a fifth 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 $14.8 million, or 24% of revenues, which is up significantly from a negative $4.4 million (-8.4% of operating revenues) in fiscal 2009. The village has a goal to maintain combined fund balance at a level of at least 20% of expenditures, and management expects fund balance to be at 22% of expenditures at the end 2014.

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 fifty positions, which reduced salary expenditures by over $4 million annually. The village added two positions in 2014 which is representative of its healthy financial position.

Fiscal 2013 ended with a $1.9 million General Fund surplus as a result of positive revenue variances largely attributable to building permits and fees, bringing total General Fund balance to $9.2 million or a healthy 17.9% of revenues. The fiscal 2015 preliminary budget includes a 1.9% levy increase (within the cap). Management expects that the village will continue to benefit from increased building and permit fees driven by residential and commercial development.

The village is a part of the Westchester Joint Water Works (WJWW). The state of New York ordered the WJWW to build a water filtration plan, which has not yet been constructed. As a result, the New York State Health Department is accruing unpaid fines from the WJWW. The village's portion of the accrued fines was $13.2 million in December, 2014. Based on information provided by the village's attorneys, we do not believe the fines will have a material effect on the village's financial position. We will continue to monitor the situation. A substantial settlement could result in negative pressure on the village's credit profile.

AFFLUENT TAX BASE EXPECTED TO BENEFIT FROM DEVELOPMENT

The village's affluent $7.7 billion tax base is expected to benefit from substantial residential and commercial development. Located approximately 25 miles north of New York City (Aa2 stable) in Westchester County (Aa1 stable), the village serves as corporate headquarters for Morgan Stanley (Baa2 positive), Mastercard Incorporated (A2 stable), and PepsiCo, Inc. (A1 stable).

Positively, the Metropolitan Transportation Authority (Aa2 stable) entered a joint development agreement with the town of Harrison and AvalonBay Communities, Inc. to develop a 570 space parking garage with additional buildings for retail space and 143 upper-level luxury apartments. The project is expected to begin construction in 2016 invigorating the village's downtown area. Significant commercial and residential development has been recently completed, including Memorial Sloan-Kettering Cancer Center (Aa3 stable) which completed a $51 million expansion and renovation project in October 2014, and Lifetime Fitness which spent $45 million constructing a new facility in the village which opened in February 2014. Mastercard is in the middle of a $39 million renovation and expansion project, and Pepsico has begun a substantial $243 million project to renovate and construct new buildings. The village is also expected to benefit from development at 3030 Westchester Ave., which is being developed as a multi-story medical office available for occupancy beginning in January, 2015.

Despite the village's use of PILOT agreements and successful tax appeals, assessed valuation increased in 2014 for the first time since 2007, by 0.1%. Full valuation has declined over the past several years due to ongoing real estate market stagnation, resulting in an average annual decline of 3.7% since 2009. 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 $278,884 in 2014.

AVERAGE DEBT BURDEN WITH BELOW AVERAGE PENSION LIABILITY

The village's debt position is expected to remain manageable given a modest direct debt burden (0.8% of full valuation) and limited future borrowing plans. Debt amortizes rapidly at an average rate of 74.6% within ten years. 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 few years to fund various ongoing capital improvements. All bonds are fixed rate and the village is not party to any derivative agreements or direct loans.

The village contributes to the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System, two cost-sharing multiple employer defined benefit pension plans administered by the state. The village's annual required contribution totaled $5.8 million or 9% of operating expenditures in fiscal 2013 and constituted 100% of the annual pension cost. The village's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is $90.8 million or below average at 0.89 times of 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 village's reported liability information, but to improve comparability with other rated entities.

WHAT COULD MAKE THE RATING GO UP:

-Significant growth in reserve levels

-Substantial tax base expansion

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:

Full Value, Fiscal 2014: $7.7 billion

Full Value Per Capita, Fiscal 2014: $278,884

Median Family Income as % of US Median: 209.1%

Available Fund Balance as % of Revenues, Fiscal 2014: 13.4%

5-Year Dollar Change in Fund Balance as % of Revenues: 16%

Cash Balance as % of Revenues, Fiscal 2014: 33.9%

5-Year Dollar Change in Cash Balance as % of Revenues: 26%

Institutional Framework: A

5-Year Average Operating Revenues / Operating Expenditures: 1.02x

Net Direct Debt as % of Full Value: 0.84%

Net Direct Debt / Operating Revenues: 0.96x

3-Year Average ANPL as % of Full Value: 0.78%

3-Year Average ANPL / Operating Revenues: 0.89x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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