MOODY'S
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Rating Action: Moody's upgrades Suffern, NY's GOLT & issuer rating to A2

08 Oct 2019

New York, October 08, 2019 -- Moody's Investors Service has upgraded the GOLT and issuer ratings on the Village of Suffern to A2 from Baa1. This upgrade affects $6.9 million in Moody's-rated debt and considers all of the village's $9.1 million GO debt. The village's positive outlook has been removed.

Moody's considers the village's outstanding debt to be GOLT because of limitations under New York State law on the village's ability to increase taxes to pay debt service. The issuer rating is equivalent to the village's hypothetical general obligation unlimited tax (GOULT) rating; there is no debt associated with this security.

RATINGS RATIONALE

The upgrade to A2 reflects the village's significantly improved financial position driven by deficit financing and improved budget management while challenges in the sewer fund operations remain. The rating also incorporates the village's moderately-sized tax base, strong wealth indicators, and elevated but manageable fixed costs.

The absence of distinction between the issuer rating and the GOLT rating reflects the village board's ability to override the cap on property tax increases as well as the village's faith and credit pledge to pay debt service.

RATING OUTLOOK

Moody's does not typically assign outlooks to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Resolution of sewer fund deficit

- Maintenance and growth of reserves

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Further deterioration of sewer fund finances

- Significant increases in debt

- Material reserve decline

LEGAL SECURITY

The village's GOLT debt is secured by the village's general obligation pledge as limited by the New York State's legislated cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011) as well as by the village's faith and credit pledge to pay debt service.

PROFILE

The village, located approximately 30 miles north of New York City, encompasses 2.1 square miles in the southwestern portion of Rockland County. Population as of 2017 was 10,984.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in September 2019. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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CREDIT OPINION
8 October 2019

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Suffern (Village of) NY

Update to credit analysis following upgrade to A2

Summary

The Village of Suffern (A2), New York benefits from a moderately-sized and stable tax base and above average resident wealth indicators. The village also benefits from significantly improved fiscal management as evidenced by strong operating results over the past three fiscal years. However, the village has historically struggled with balancing it's operations and has required deficit financing bonds to erase a large accumulated deficit in 2015. While the debt burden is slightly above average it remains manageable.

On October 8, 2019, the village's issuer and general obligation limited tax ratings were upgraded to A2 from Baa1/positive.

Credit strengths

» Balanced operations and reserve growth

» Strong resident wealth indicators

Credit challenges

» Continued deficit sewer fund balance

» High fixed costs

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

» Resolution of sewer fund deficit

» Maintenance and growth of reserves

Factors that could lead to a downgrade

» Further deterioration of sewer fund finances

» Significant increases in debt

» Material reserve decline

Key indicators

Exhibit 1

Suffern (Village of) NY	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value ($000)	$978,134	$954,417	$924,030	$956,292	$1,003,538
Population	10,803	10,864	10,914	10,936	10,984
Full Value Per Capita	$90,543	$87,851	$84,665	$87,444	$91,364
Median Family Income (% of US Median)	154.5%	152.7%	142.9%	152.2%	147.7%
Finances					
Operating Revenue ($000)	$12,635	$13,014	$14,937	$14,810	$15,143
Fund Balance ($000)	($1,258)	($2,202)	$1,437	$2,254	$3,185
Cash Balance ($000)	($325)	$15	$321	$707	$2,291
Fund Balance as a % of Revenues	-10.0%	-16.9%	9.6%	15.2%	21.0%
Cash Balance as a % of Revenues	-2.6%	0.1%	2.1%	4.8%	15.1%
Debt/Pensions					
Net Direct Debt ($000)	$8,098	$9,249	$12,243	$11,382	$10,397
3-Year Average of Moody's ANPL ($000)	$17,172	$24,376	$24,872	$26,026	$22,084
Net Direct Debt / Full Value (%)	0.8%	1.0%	1.3%	1.2%	1.0%
Net Direct Debt / Operating Revenues (x)	0.6x	0.7x	0.8x	0.8x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.8%	2.6%	2.7%	2.7%	2.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.9x	1.7x	1.8x	1.5x

Source: Moody's Investors Service, audited financial statements, U.S. Census Bureau

Profile

The village, located approximately 30 miles north of New York City, encompasses 2.1 square miles in the southwestern portion of Rockland County. Population as of 2017 was 10,984.

Detailed credit considerations

Economy and tax base: Stable tax base with limited local economy

Suffern's tax base is likely to remain stable in the near term due to improving home values. Full value declined each year from its 2010 peak of $1.2 billion through 2016 due to overall economic downtown and the village's top taxpayer, Novartis AG (A1), leaving the village. Full value improved in 2017 and 2018 due to rebounding housing prices. The former Novartis site was sold and is currently occupied by a food manufacturer. 2019 tax receipts for the property were received in full and on time.

The largely residental tax base has a strong resident wealth profile highlighted by a median family income and full value per capita that are above average for the region. The Sheldon, a 92 unit luxury condominium complex in downtown Suffern, opened in June 2019 and is over 80% occupied at this time. Management reports there is additional interest in mixed-used residential and commercial development for the downtown area but progress has been limited to surveying.

Financial operations and reserves: Reserve growth continues but sewer fund balance still in deficit

Village reserves will likely continue to improve given tight controls on spending and conservative budget estimates for revenues. The financial position significantly improved following the issuance of $3.8 million of deficit reduction bonds in 2015. However, the greatest improvement over the past three years has been in budgeting for revenues and expenses. The more conservative budgeting approach has allowed the village to grow it's reserve position while also making full pension payments. Estimates for the close of fiscal 2019 show further reserve growth.

Reserves can be expected to grow as the village continues to adhere to its established fund balance policy. The village adopted a formal fund balance policy to maintain 20% of general fund appropriations in reserve. The policy is further strengthened by restrictions on use of reserves for capital, emergencies and other nonrecurring expenditures. The village has also placed a prohibition on short term debt to finance recurring expenses, requiring departments to appropriately budget for anticipated recurring expenditures.

Further improvements to the village's reserve position may be challenged by the sewer fund. The sewer fund at the close of fiscal 2018 had a deficit position of -$288,000. Management is anticipating positive operations for its sewer fund for fiscal 2019 after a 4.2% rate increase. The village raised sewer rates again by 10.5% in 2020 as it continues its efforts to improve the sewer fund's financial operations. The sewer fund will not likely be self-supporting for several years but the recent rate increases are a positive first step to bringing the fund into balance.

LIQUIDITY

Through the utilization of deficit financing and conservative expense management, the village has improved its cash balance to $2.3 million or 15.1% of operating revenues. This is a vast improvement over the village's nearly illiquid cash position $15,000 in 2015 when it issued deficit financing bonds.

Debt and pensions: Above average fixed costs and overall manageable leverage

The debt burden will increase in the in the next five years as the village plans to issue bonds to finance sewer plant improvements. The sum of the future issuance depends on grant receipts but the village is anticipating funding 60% of the $9 million project through bonds. To minimize its future issuance needs, the village pursues funding through the New York State Environmental Facilities Corporation, reassesses its capital needs on an annual basis and has a full time grant writer.

In fiscal 2018 the village's debt service and pension and OPEB contributions totaled $4.13 million or approximately 27% of operating revenues and 29% of operating expenditures. While the village's total fixed costs are above average, the village's overall leverage position is manageable.

DEBT STRUCTURE

All of the village's debt is fixed rate with 81% amortizing within in the next ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The village's unfunded pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The village participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis.

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 2018 employer contributions to the plans totaled $1.4 million representing a moderate 10% of operating expenditures. The table below summarizes the village's 2018 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

	Amount ($ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	15,143		
Reported Unfunded Pension Liability	3,879	25.62%	7.00%
Moody's Adjusted Net Pension Liability	21,961	145.02%	3.96%
Reported Net OPEB Liability	33,798	223.19%	3.70%
Moody's Adjusted Net OPEB Liability	31,506	208.06%	4.02%
Pension Contribution	1,410	9.31%	
OPEB Contribution	659	4.35%	-
Net Direct Debt	10,397	68.66%	-
Debt Service	1,259	8.31%	-
Total Fixed Costs	3,328	21.98%	-

[1] A positive pension tread water gap reflects a pension contribution less than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A negative tread water gap reflects a contribution greater than the amount required to keep the unfunded liability from increasing if all assumptions are realized.
Source: Moody's Investors Service, audited financial statements

The village's 2018 pension contributions totaled 117% of Moody's tread water indicator, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the village participates experience returns on assets that fall short of their assumptions, the village's required pension contribution will increase.

Because it is not pre-funding OPEB benefits as they accrue, as it is not permitted under New York State law (though changing that is under discussion in the legislature), the village's currently modest OPEB costs will likely increase as the number of retirees it covers grows and retirees age.

Management and governance

Management has achieved financial stabilization and reserve growth through conservative budgetary practices and active expense management. The village is also proactive about protecting itself from cyberattacks through the use of malware protection software, purchase of cybersecurity insurance and awareness of common attack tactics like phishing scams. To date the village has not been the victim of a hacking or ransomware attack.

As a condition of the deficit financing, the village came under a level of state oversight. Management now must send the village budget to the state for review. It is also required to provide quarterly finances to the state comptroller. While the state can only recommend certain changes and has no power to actually implement changes, the added layer of oversight is positive.

New York cities have an Institutional Framework score of “A”, which is moderate. 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. 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 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

Suffern (Village of) NY

Rating Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,003,538	A
Full Value Per Capita	$91,364	Aa
Median Family Income (% of US Median)	147.7%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	21.0%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	30.7%	Aaa
Cash Balance as a % of Revenues	15.1%	Aa
5-Year Dollar Change in Cash Balance as % of Revenues	14.3%	Aa
Notching Factors:[2]		
Outsized Enterprise or Contingent Liabliity Risk: Sewer fund deficit position		Down
Other Analyst Adjustment to Finances Factor: Inflated financial trends due to utilization of deficit financing		Down
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.0%	Aa
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.2%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
	Scorecard-Indicated Outcome	A2
	Assigned Rating	A2

[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 dated September 27, 2019.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication.
Source: Moody's Investors Service, audited financial statements, U.S. Census Bureau

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