

Rating Action: Moody's upgrades Bayville, NY GO to Aa3

Global Credit Research - 12 Feb 2018

New York, February 12, 2018 -- Moody's Investors Service has upgraded the rating of the village of Bayville, New York's outstanding general obligation (GOLT) debt as well as the village's Issuer Rating to Aa3 from A1. The Issuer Rating is equivalent to the General Obligation Unlimited Tax (GOULT) rating we would assign to GOULT debt of the issuer; the limited tax rating is at the same level.

RATINGS RATIONALE

The upgrade to Aa3 reflects the village's modestly-size tax base, strong socioeconomic indicators, and low debt and pension burdens. The rating further reflects the village's strong financial position driven by a multi-year trend of operating surpluses.

RATING OUTLOOK

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE

Material growth of taxable base

Significant improvement of financial position

FACTORS THAT COULD LEAD TO A DOWNGRADE

Deterioration of financial position

Significant increase in debt or pension liabilities

Material tax base decline

LEGAL SECURITY

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).

PROFILE

The Village of Bayville is a largely residential community on the north shore of Long Island.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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CREDIT OPINION

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Bayville (Village of) NY

Update following upgrade of Bayville, NY GO to Aa3

Summary

Bayville, New York (Aa3) has a modest tax base in Nassau County (A2 stable) and strong resident wealth and incomes. The village's stable operating performance drives its strong liquidity and reserves. The village's Water Fund, however, continues to have a deficit financial position. The village's debt and pensions are manageable.

On February 9, 2018 we upgraded the village's GOLT and Issuer Rating to Aa3 from A1.

Credit strengths

- » Stabilizing tax base after multi-year trend of contraction
- » Strong wealth and income levels
- » Integration into economically vibrant New York City (Aa2 stable) metropolitan area
- » Multi-year trend of operational surpluses leading to improved reserve and liquidity

Credit challenges

- » Somewhat small reserves on absolute basis
- » Deficit position in village water fund anticipated to be eliminated at the end of fiscal 2018

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Sustained growth of taxable base
- » Operational surpluses leading to material strengthening of financial position

Factors that could lead to a downgrade

- » Significant tax base contraction
- » Erosion of financial position
- » Material growth to debt or pension liabilities

Key indicators

Exhibit 1

Bayville (Village of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,074,421	\$1,028,297	\$1,033,078	\$1,111,958	\$1,111,958
Population	6,701	6,724	6,724	6,751	6,751
Full Value Per Capita	\$160,337	\$152,929	\$153,640	\$164,710	N/A
Median Family Income (% of USMedian)	184.8%	183.1%	181.4%	181.4%	181.4%
Finances					
Operating Revenue (\$000)	\$5,446	\$5,852	\$5,647	\$5,860	\$6,018
Fund Balance (\$000)	\$304	\$579	\$1,044	\$1,611	\$2,082
Cash Balance (\$000)	(\$23)	\$327	\$572	\$1,063	\$1,404
Fund Balance as a % of Revenues	5.6%	9.9%	18.5%	27.5%	34.6%
Cash Balance as a % of Revenues	-0.4%	5.6%	10.1%	18.1%	23.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$5,073	\$3,657	\$3,986	\$3,615	\$3,151
3-Year Average of Moody's ANPL (\$000)	\$2,525	\$3,361	\$4,549	\$4,742	\$4,704
Net Direct Debt / Operating Revenues (x)	0.9x	0.6x	0.7x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.5%	0.4%	0.4%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	0.6x	0.8x	0.8x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.3%	0.4%	0.4%	0.4%

Source: Moody's Investors Service; audited financial statements

Profile

The village of Bayville is a largely residential community on the north shore of Long Island.

Detailed credit considerations

Economy and Tax Base: Stabilizing tax base in Nassau County; Strong wealth and income indicators

The village's \$1.1 billion tax base will continue to stabilize given modest future local development and its favorable location in the New York City metropolitan area. The village's tax base has grown in consecutive years after five consecutive years of contraction. The village's five year average annual growth rate is -2.4%. Management reports modest development in the village including two mixed-use developments that will create approximately 8 new apartment units and some additional commercial spaces.

The village's socioeconomic profile is strong. Full value per capita in the village of \$164,710 is above the state and national medians for the Aa3 rating category of \$86,049 and \$90,787 respectively. The village's median family income as of the 2015 American Community Survey was 182% of the national median, above the state and national rating category medians of 131% and 112%. As of October 2017 Nassau County unemployment was 4.0%, below the state and national rates of 4.6% and 3.9% respectively.

Financial Operations and Reserves: Strong operating performance drives improved financial position

Strong operating performance drives Bayville's healthy financial position, a trend likely to continue given the village's track record of conservative budgeting. Fiscal 2017 was the village's fifth year of break-even or surplus operations. Over that time the village's available fund balance improved significantly to \$2 million from \$304 thousand. At 35% of fiscal 2017 General Fund revenues the village's available fund balance is consistent with state and national medians for the Aa3 rating category of 35% and 33% respectively.

As of fiscal 2017 the village maintains a negative \$214 thousand position in its Water Fund. This deficit position has been reduced incrementally over a multi-year period, declining from of \$320 thousand in fiscal 2015. Management attributes the improved financial

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position of the Water Fund due to newly installed metering and timely rate increases. The village anticipates eliminating the Water Fund's deficit position by the end of fiscal 2018.

The village's 2018 budget is balanced with no fund balance appropriation and a 3.8% increase in its property tax levy, exceeding the state mandated tax cap by \$109 thousand or 2.25%. The additional revenue is for pay-go capital including road pavement and purchasing of new village vehicles.

LIQUIDITY

As of the close of fiscal 2016, the village's General Fund net cash position was \$1.4 million representing a strong 23% of revenues.

Debt and Pensions: Manageable debt and pension burden

The village's debt burden will remain low given modest future issuance plans. The village currently has \$3.2 million in direct debt outstanding, consisting primarily of GO bonds and a nominal capital lease. The village's direct debt represents a low 0.3% of full value and 0.5 times operating revenues. The village has tentative plans for a modest issuance for fall 2019 for a marina dredging project which is estimated to be approximately \$1 million.

DEBT STRUCTURE

All of the village's debt is fixed rate. The village's debt amortizes at an above average rate, with 100% retired in ten years

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

For most of its employees Bayville contributes to the New York State and Local Employees' Retirement System (ERS), a multi-employer, defined benefit retirement plan sponsored by the state of New York. The village also maintains a defined benefit pension plan, the Bayville Village Length of Service Awards Program Plan (LOSAP) for its volunteer firefighters. The fiscal 2017 contribution for both plans amounted to \$467,000, representing 7.7% expenditures. The village's Moody's adjusted net pension liability is \$4.7 million, or .78 times revenues.

The village funds other post-employment benefits (OPEB) on a pay-as-you-go basis. In fiscal 2017 the village contribution was \$151 thousand. The village's total fixed costs (pension plus debt service plus OPEB) was \$587 thousand or 14% of expenditures.

Management and Governance: Conservative budgeting practices; Moderate institutional framework

Conservative budgeting and careful expense management have contributed to the village's consistent operating results.

New York cities, villages and townships have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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% and 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% and 10% annually

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