

# RatingsDirect®

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## Summary:

# Northport Village, New York; General Obligation

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## Summary:

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### Credit Profile

US\$2.4 mil rfdg serial bnds ser 2015

*Long Term Rating*

AA+/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to the Village of Northport, N.Y.'s series 2015 general obligation (GO) refunding bonds.

We understand that officials plan to use bond proceeds to refund the series 2001 GO bonds outstanding. There is no extension of maturity and savings are taken evenly over the life of the bonds with an estimated net present value savings of about 8.2%.

A pledge of the village's faith and credit secures the bonds.

The rating reflects our assessment of the following factors for the village:

- Very strong economy as part of the New York-Newark-Jersey City metropolitan statistical area (MSA);
- Adequate management conditions, with what we consider "good" financial policies and practices based on our Financial Management Assessment (FMA) methodology;
- Very strong budgetary flexibility based on what we consider a very strong available fund balance;
- Strong budgetary performance, with a history of positive general fund results;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Very strong debt and contingent liabilities position, which includes overall net debt at less than 3% of market value and rapid amortization of principal; and
- Strong Institutional Framework.

### Very strong economy

The Village of Northport is on the north shore of Long Island, within the town of Huntington, and has a population of 7,425. Primarily a residential community, the village's residents have access to the New York-Newark-Jersey City MSA as the village is within an hour's commute of midtown Manhattan. Per capita incomes were twice that of the national average and unemployment has remained low at 6.4% in 2013. The village maintains a strong maritime culture with the coastline providing both economic and recreational benefit. Local commercial activity is centered on both marine-related businesses and retail establishments located along the harbor and Main Street.

Residential properties account for nearly 90% of total assessed valuation (AV). Northport Village's AV has been stable the past three fiscal years. For fiscal 2014, total AV was \$17.9 million; we consider the village's market value per capita extremely strong at about \$172,569 million. The village's property tax base is very diverse, as the 10 leading taxpayers account for 4.9% of total AV.

### **Adequate management conditions**

Standard & Poor's considers Northport Village's financial management practices "standard" under its FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Budget assumptions are what we regard as conservative. Management monitors budget performance daily and makes monthly reports to the board of trustees. The district does not maintain a long-term financial plan or a capital improvement plan, and it lacks formal debt management policy. The district does have a fund balance target to maintain undesignated reserves above 20% of the following year expenditures, to which it has historically adhered.

### **Very strong budgetary flexibility**

In our opinion, budgetary flexibility is very strong. In the past three fiscal years, the village has maintained positive general fund performance and increased available reserves to a very strong 32.1% of expenditures in fiscal 2014, or \$4.2 million. The village allocates from \$150,000-\$200,000 to the fund balance annually. It maintains an informal policy to keep its undesignated reserves above 20% of budgeted expenditures. For fiscal 2015, management projects a surplus of operations and addition to fund balance.

### **Strong budgetary performance**

We consider the village's budgetary performance strong, with operating surpluses in two of the past three years. In fiscal 2014, the district reported a \$1.4 million operating surplus, which is 11.1% of general fund expenditures. The key contributing factors to this surplus are increases in real property taxes, new growth spurred by housing developments, and continued federal aid reimbursements associated with Superstorm Sandy. After netting out one-time expenditures for sewer upgrades, the district reported a total governmental funds surplus of 5.9%. Northport Village's tax base provides financial stability. Property taxes are the village's leading revenue source, accounting for 76% of general fund revenues, and collections have historically averaged 100% on a current basis.

For fiscal 2015, management estimates a general fund surplus in operations. The fiscal 2015 budget is balanced without the use of reserves.

### **Very strong liquidity**

Northport Village has a very strong liquidity position, with total government available cash at 28.3% of total governmental fund expenditures and 3x debt service for fiscal 2014. We believe the village has strong access to external liquidity, having issued GO bonds within the past 10 years.

### **Very strong debt and contingent liability profile**

The debt and contingent liability profile is very strong despite relatively high pension and OPEB liabilities. Net direct debt is 29% of revenue and total governmental fund debt service is 9.6% of total governmental fund expenditures. Approximately 87.8% of the existing debt is to be repaid over 10 years and overall net debt is 1.3% of market value, both of which we view as credit strengths. The village has no significant debt issuance plans in the near future.

In fiscal 2014, the combined pension and OPEB payments represented 9.7% of total government expenditures. Northport Village participates in the New York State Employees' Retirement System and the Local Police and Fire Retirement System. It contributed its full annual required contribution of \$1.4 in fiscal 2014. The village also provides OPEB in the form of health insurance and contributed \$305,396 in fiscal 2014 on a pay-as-you-go basis, which was 30% of its annual required contribution. As of its Feb. 28, 2014, valuation, the OPEB plan had an unfunded liability of

\$12.6 million. Although retirement expenses could pressure the rating in years to come, we view current liabilities as manageable.

### **Strong Institutional Framework**

We consider the Institutional Framework Overview: New York Local Governments Villages as strong.

## **Outlook**

The stable outlook reflects Standard & Poor's expectation that Northport Village will continue to adjust its budget to maintain structural balance while maintaining its very strong reserves. The underlying wealth and income levels provide rating stability, as do all its strong economic and financial indicators. If performance were to significantly deteriorate along with reserves, we could lower the rating. However, given the village's history of maintaining stable operations and very strong underlying economy, we do not expect to change the rating within the two-year outlook horizon. Upward rating action is contingent on the village formalizing some of its policies and mitigating high pension and OPEB expenses.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

### **Related Research**

- U.S. State And Local Government Credit Conditions Forecast, Dec. 10, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework score for New York

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