

## CREDIT OPINION

27 September 2019

 Rate this Research

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# Cortlandt (Town of) NY

## Update to credit analysis following upgrade

### Summary

The Town of Cortlandt (Aa1), New York's conservative budgeting has supported its strong financial position and management's proactive planning for the scheduled close of the Indian Point nuclear facility and decline of associated PILOT revenues is positive. The town benefits from a large tax base in upper Westchester County (Aa1 negative) and an affluent local resident profile. Cortlandt's debt, pension, and other post-employment benefit (OPEB) burdens are manageable.

This credit opinion follows a press release issued on September 27 announcing the upgrade of the town's issuer and GOLT ratings to Aa1 from Aa2.

### Credit strengths

- » Robust tax base in upper Westchester County
- » Strong financial position
- » Affluent local resident wealth and income profile
- » Low debt and pension burdens

### Credit challenges

- » Anticipated multi-year reduction of Indian Point PILOT payment

### Rating outlook

Outlooks are not typically applied to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Material strengthening of tax base and resident wealth levels
- » Significant improvement of reserves and liquidity

### Factors that could lead to a downgrade

- » Deterioration of financial position
- » Inability to seamlessly incorporate declines of Indian Point PILOT into town budget, resulting in material erosion of reserves

## Key indicators

Exhibit 1

<b>Cortlandt (Town of) NY</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$5,242,560	\$5,330,498	\$5,753,778	\$5,980,938	\$6,266,002
Population	42,247	42,442	42,576	42,816	42,816
Full Value Per Capita	\$124,093	\$125,595	\$135,141	\$139,689	\$146,347
Median Family Income (% of US Median)	184.1%	189.7%	183.8%	183.0%	183.0%
<b>Finances</b>					
Operating Revenue (\$000)	\$29,773	\$29,766	\$31,878	\$31,179	\$30,804
Fund Balance (\$000)	\$10,330	\$9,789	\$11,221	\$11,882	\$11,045
Cash Balance (\$000)	\$20,690	\$15,542	\$22,516	\$33,212	\$23,681
Fund Balance as a % of Revenues	34.7%	32.9%	35.2%	38.1%	35.9%
Cash Balance as a % of Revenues	69.5%	52.2%	70.6%	106.5%	76.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$8,220	\$7,671	\$9,867	\$10,194	\$8,533
3-Year Average of Moody's ANPL (\$000)	\$28,092	\$33,131	\$33,865	\$35,226	\$33,798
Net Direct Debt / Full Value (%)	0.2%	0.1%	0.2%	0.2%	0.1%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.5%	0.6%	0.6%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.1x	1.1x	1.1x	1.1x

Source: Moody's Investors Service and audited financial statements

## Profile

The town encompasses approximately 34 square miles and is located in the northwestern section of Westchester County. Manhattan is about 50 miles south of the town. The town includes the incorporated Villages of Croton-On-Hudson (Aa2) and Buchanan. The town's 2017 population was 42,816.

## Detailed credit considerations

### Economy and tax base: Large tax base in upper Westchester County

Cortlandt's tax base will continue to benefit from various ongoing local development and the town's proximity to employment centers across Westchester County (Aa1 negative) and in New York City (Aa1 stable). The town's large \$6.3 billion full valuation has grown at five-year average annual rate of 3.8% through 2019. Management reports various local developments are ongoing within the town highlighted by a project that will add 158 new single family homes and a separate endeavor that will create 56 new rental units.

The town's tax base is modestly concentrated with the ten largest taxpayers accounting for 16% of the town's total valuation. The modest concentration is largely mitigated by the top taxpayers being particularly stable including Consolidated Edison (5.1%) and the New York City Aqueduct (5.3%).

The anticipated closure of Entergy's (Baa2 stable) Indian Point nuclear plant should not impact the town's taxable valuations as the facility maintains a PILOT arrangement with Cortlandt. The facility is not reflected in the town's taxable values.

The town's wealth and income levels are strong. Local median family income is 184% of the US median according to the 2017 American Community Survey. The town's full value per capita is \$147,220.

### Financial operations and reserves: Conservative budgeting supports strong financial position

The town's financial position will remain strong due to conservative budgeting and healthy reserve levels. In fiscal 2018 the town ended with balanced General Fund operations before transfers out for capital, which ultimately resulted in a modest \$241 thousand reduction of fund balance. The town's 2018 available General Fund balance was a still healthy \$4.5 million or 36.2% of revenues. Similarly, on an Operating Funds (General Fund, Debt Service Fund, Town Outside Villages Fund, Highway Fund) basis the town incurred modest

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operational surpluses before transfers out for capital, which reduced the town's fund balance by \$541 thousand. The town's 2018 available Operating Funds balance was a still strong \$11 million representing 35.9% of revenues.

The town's 2019 budget was largely flat relative to 2018, included a nominal tax levy increase and an appropriation of General Fund balance of approximately \$700 thousand. The town anticipates positive revenue and expenditure variances and ending the year with break-even operations and fund balance levels in its General Fund and across its Operating Funds.

Starting in 2019 the town will also benefit from the recently authorized 1% Westchester County sales tax, which management projects will generate \$700 thousand in unbudgeted revenues in fiscal 2019 and escalates to \$1.6 million in fiscal 2020.

In 2015 the town renewed a payment in lieu of taxes (PILOT) agreement with Entergy Corporation, which manages the local Indian Point nuclear energy facility. Currently, the town receives \$833 thousand from the PILOT. In 2017 the New York State (Aa1 stable) Governor announced that Indian Point nuclear facility would close. The plant will completely shutdown by 2021 with the town's PILOT declining incrementally through 2024. To mitigate this declining revenue source the town has created a reserve that will grow by \$100,000 annually through 2024 and also plans to apply for state funds made available to local governments to offset the loss of PILOT revenues. The town's proactive planning and management for the PILOT loss is positive.

#### LIQUIDITY

Net cash at the end of fiscal 2018 was \$23.7 million or a healthy 76.9% of revenues. The town collects and remits taxes for overlapping governments and as a result a large portion of Cortlandt's reported cash is owed to other governments, somewhat inflating the strength of the town's available liquidity.

#### Debt and Pensions: Low debt and pension burden

The town's debt burden will remain manageable given ample reserve levels and affordable future borrowing plans. The town will have \$71 million of GOLT debt outstanding, inclusive of outstanding bond anticipation notes (BANs), total direct net debt outstanding will be \$10 million, or 0.2% of full valuation. The town anticipates issuing approximately \$6 million in new money obligations in the coming years for sewer infrastructure improvements.

#### DEBT STRUCTURE

All of the town's debt is fixed rate, and amortization is average with 66% of principal repaid within ten years.

#### DEBT-RELATED DERIVATIVES

The town is not a party to any derivative agreements.

#### PENSIONS AND OPEB

Although the town's pension and OPEB liabilities are larger than its debt, these liabilities are manageable at this time and do not currently represent a credit challenge. The town participates in a multiple employer cost-sharing pension plan and funds OPEB on a pay-go basis. The table below summarizes the town's 2018 unfunded liabilities.

Exhibit 2

#### Cortlandt's pension and OPEB liabilities are larger than its debt, but are manageable

	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	30,804		
Reported Unfunded Pension Liability	2,269	7.37%	7.00%
Moody's Adjusted Net Pension Liability	32,434	105.29%	3.96%
Reported Net OPEB Liability	74,855	243.00%	3.64%
Moody's Adjusted Net OPEB Liability	68,509	222.40%	4.22%
Pension Contribution	1,669	5.42%	
OPEB Contribution	2,804	9.10%	-
Net Direct Debt	9,967	32.36%	-
Debt Service	1,646	5.34%	-
Total Fixed Costs	6,119	19.86%	-

Source: Moody's Investors Service and audited financial statements and offering documents

Favorably, the town's 2018 pension contributions exceeded tread water, the amount required to prevent the unfunded liability from increasing assuming all plan assumptions are realized.

To the extent that the multiple-employer pension plan in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, which is not permitted under New York State law though changing that is under discussion in the legislature, the town's OPEB costs will likely escalate as the number of retirees it covers grows and retirees age.

Fiscal 2018 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 20% of operating revenues. However, return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

#### **Management and governance: Conservative and proactive management practices**

Management's conservative budgeting is reflected in Cortlandt's multi-year trend of stable operations and its healthy reserve position. Furthermore, the town's proactive planning and management for the closure of the Indian Point facility is positive.

New York Cities have an Institutional Framework score of A, which is moderate. 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 (before adjusting for exemptions and rollovers). 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 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 5-10% 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

## Cortlandt (Town of) NY

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$6,303,391	Aa
Full Value Per Capita	\$147,220	Aa
Median Family Income (% of US Median)	183.0%	Aaa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	35.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	-4.1%	Baa
Cash Balance as a % of Revenues	76.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	0.6%	A
<b>Management (20%)</b>		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Notching Factors:</b> <sup>[2]</sup>		
Unusually Strong or Weak Budgetary Management and Planning		Up
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	0.3x	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.5%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa1

[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 December 16, 2016.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication.

Source: US Census Bureau and Moody's Investors Service

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