

## CREDIT OPINION

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 Rate this Research

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# Garden City (Village of) NY

## Update to credit analysis

### Summary

The Village of Garden City (Aaa stable) benefits from a wealthy tax base located in Nassau County 25 miles east of New York City's (Aa1 stable) central business district. The village also benefits from strong fiscal management, ample reserves and liquidity, minimal debt burden and manageable pension and retiree healthcare liabilities. Strong financial management continues to contribute to annual surplus operations.

### Credit strengths

- » Large tax base with strong wealth and income profile
- » Structurally balanced operations and strong reserves
- » Manageable debt and pension burden

### Credit challenges

- » History of significant tax appeals

### Rating outlook

The stable outlook reflects the expectation that the village's conservative budgeting and strong financial management will support ongoing stability of its financial operations and reserves.

### Factors that could lead to a downgrade

- » Significant growth in tax appeals resulting in draw on reserves
- » Enterprise funds requiring significant support from the general fund
- » Material declines in the tax base or wealth and income profile

## Key indicators

Exhibit 1

<b>Garden City (Village of) NY</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$5,726,144	\$5,942,782	\$6,276,609	\$6,457,224	\$6,640,814
Population	22,575	22,545	22,699	22,495	22,495
Full Value Per Capita	\$253,650	\$263,596	\$276,515	\$287,052	\$295,213
Median Family Income (% of US Median)	267.4%	267.8%	258.2%	258.2%	258.2%
<b>Finances</b>					
Operating Revenue (\$000)	\$60,507	\$58,309	\$58,177	\$59,438	\$60,358
Fund Balance (\$000)	\$13,753	\$14,491	\$16,395	\$16,612	\$14,323
Cash Balance (\$000)	\$15,460	\$16,217	\$18,322	\$20,044	\$17,450
Fund Balance as a % of Revenues	22.7%	24.9%	28.2%	27.9%	23.7%
Cash Balance as a % of Revenues	25.6%	27.8%	31.5%	33.7%	28.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$19,850	\$22,891	\$21,847	\$19,751	\$42,130
3-Year Average of Moody's ANPL (\$000)	\$88,363	\$87,449	\$84,886	\$75,237	\$74,804
Net Direct Debt / Full Value (%)	0.3%	0.4%	0.3%	0.3%	0.6%
Net Direct Debt / Operating Revenues (x)	0.3x	0.4x	0.4x	0.3x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.5%	1.5%	1.4%	1.2%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.5x	1.5x	1.3x	1.2x

Source: Moody's Investors Service and issuer's audited financial statements

## Profile

The village is located within the Town of Hempstead (Aa2 positive) in Nassau County. As of 2017, the village had approximately 22,700 residents.

## Detailed credit considerations

### Economy and Tax Base: Large tax base with strong demographic profile

The village's primarily residential \$6.6 billion tax base will likely remain stable given a reduction in tax appeals in the past year. After declining from 2010 to 2015, full value has increased in each of the past three years. The five year compound annual growth rate is 2.3%. The village benefits from its proximity to New York City with the city's central business district 25 miles and 36 minutes by train away.

Adelphi University (enrollment: 7,860) is the village's largest employer with 1,100 employees. Although the county seat is Mineola (Aa2), most of the county's administrative buildings are located in Garden City.

Resident wealth and incomes are well above the state and national averages, with median family income equal to 237% and 258% of the state and US medians, respectively. Additionally, the village's full value per capita of \$295,213 reflects the presence of a number of high value residential properties and a moderate commercial sector, primarily office buildings located near the Roosevelt Field Mall, and both commercial buildings and restaurants along Franklin Avenue and Seventh Street.

### Financial Operations and Reserves: Strong reserves bolstered by structurally balanced operations

The village's financial position will likely remain stable. The village ended fiscal 2019 with an operating deficit of approximately \$2.9 million, driven largely by a one time \$5.3 million legal settlement. Absent that expense, the village would have realized a sizeable surplus due to favorable variance in interest income and deferred hiring which helped keep expenditure growth low. Importantly, expenditures for tax appeal settlements, which have historically weakened the village's financial position, were under budget. Available fund balance at year end totaled \$14.3 million representing 25% of revenue.

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While tax appeals have the potential to place pressure on operations and reserves, management notes that tax refunds have steadily declined from \$2.3 million in 2011 to approximately \$500,000 in 2019.

The fiscal 2020 budget is \$4.3 million larger than the 2019 budget reflecting 7% growth; however, many budgeted expenses will be reimbursed by the Business District and LIRR Third Track Committee. Netting out those costs, the budget increased by a more modest \$861,000 representing 1.4% year over year growth. The tax levy increased by 1.5%, which is within the state tax cap.

The fiscal 2021 budget is still underway, though management is not expecting any major changes going forward.

## LIQUIDITY

Cash and investments at the end of fiscal 2019 totaled \$17.5 million representing 29% of revenues.

### Debt and Pensions: Modest debt burden and manageable pension liability

The village's net direct debt burden, at 1.1% of full value post issuance, is manageable. Management is cognizant of the crowding out effects debt service can have on their budgeting needs. Reflecting that, existing capital expenditures for fiscal 2021 reflect \$11 million.

## DEBT STRUCTURE

The entire debt portfolio is fixed rate with 74% of principal to be retired over the next ten years. Fiscal 2019 debt service totaled \$2.4 million representing 4% of revenues.

## DEBT-RELATED DERIVATIVES

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

## PENSIONS AND OPEB

The village's unfunded pension and retiree health care (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 table below summarizes the village's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	60,358		
Reported Unfunded Pension Liability	6,975	11.56%	7.00%
Moody's Adjusted Net Pension Liability	83,363	138.11%	3.83%
Reported Net OPEB Liability	162,390	269.04%	3.10%
Moody's Adjusted Net OPEB Liability	144,436	239.30%	3.69%
Pension Contribution	4,212	6.98%	-
Pension Tread Water Gap [1]	(31)	-0.05%	-
OPEB Contribution	3,918	6.49%	-
Net Direct Debt	42,130	69.80%	-
Debt Service	2,412	4.00%	-
Total Fixed Costs	10,542	17.47%	-

[1] A negative pension tread water gap reflects pension contribution in excess of the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A positive tread water gap reflects the opposite.

Source: Moody's Investors Service and issuer's audited financial statements

Favorably, the village's 2019 pension contributions exceeded tread water, 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.

Garden City's OPEB contributions have increased significantly over the last several years, 14% from 2017 to 2018 and 26% from 2018 to 2019. 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 village's OPEB costs will likely continue to rise, possibly significantly as the number of retirees it covers grows and retirees age.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 17.5% 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.

## ESG Considerations

### Environmental considerations

The village is issuing bond anticipation notes to fund state mandated remediation of trace amounts 1,4 dioxane in the village's water supply. Positively for the village, the state will likely cover the majority of the costs of the cleanup. Otherwise, environmental risks faced by the village modest and consistent with those faced by the local government sector as a whole.

### Social considerations

Social considerations are not currently a material contributor to the village's credit profile.

### Management and governance considerations

The village's management is sound as demonstrated by conservative budgeting practices, which have led to recent surpluses, and a formalized policy to maintain a minimum unassigned fund balance in the General Fund equal to two percent (2%) of subsequent year's expected expenditures. The village has been compliant with this policy since its inception and currently maintains fund balance well in excess of the policy requirement.

New York cities, town and villages have an Institutional Framework score of A which is moderate. They operate within a state-imposed property tax cap, which limits their ability to increase their operating levy by the lesser of 2% or CPI. 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 Rating 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

## Garden City (Village of) NY

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$6,640,814	Aa
Full Value Per Capita	\$295,213	Aaa
Median Family Income (% of US Median)	258.3%	Aaa
<b>Notching Factors:</b> <sup>[2]</sup>		
Other Analyst Adjustment to Economy/Taxbase Factor: High wealth levels		Up
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	23.7%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	11.2%	Aa
Cash Balance as a % of Revenues	28.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	13.3%	Aa
<b>Management (20%)</b>		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	1.1%	Aa
Net Direct Debt / Operating Revenues (x)	1.2x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.2x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[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.

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

Source: US Census Bureau, Moody's Investors Service

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