

RatingsDirect®

Summary:

Brightwaters, New York; General Obligation

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Credit Profile

US\$1.65 mil pub imp serial bnds ser 2016 due 08/01/2025

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating and stable outlook to Brightwaters, N.Y.'s series 2016 general obligation (GO) public improvement bonds.

The bonds are secured by the village's faith and credit pledge, and the majority of proceeds will fund road improvements.

The rating reflects the village's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 16% of operating expenditures but that is low on a nominal basis at \$389,000;
- Very strong debt and contingent liability position, with no debt service paid from governmental funds and net direct debt that is 63.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with all debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Brightwaters' economy very strong. The village, with an estimated population of 3,042, is in Suffolk County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 191% of the national level and per capita market value of \$156,902. Overall, the village's market value grew by 1.4% over the past year to \$477.3 million in 2016. The county unemployment rate was 5.3% in 2014.

Brightwaters is residential community located along the south shore of Long Island, on the Great South Bay. The village has two small shopping districts and maintains a number of waterfront parks along the coastline and its freshwater lakes. The village's full valuation increased 1.4% year-over-year in 2016 following declines of 2.7% in 2013, 7.1% in 2014, and 5% in 2015. We understand the recent declines were due to a large tax certiorari settlement and the implementation of a veteran's property tax exemption.

Strong management

We view the village's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The village uses five years of historical revenue and expenditure data when preparing its annual budget and maintains a five-year financial plan. Elected officials receive monthly budget-to-actual updates and quarterly investment reports (showing both holdings and earnings). The village has a multiyear plan of capital spending and recently-approved fund balance policy that requires a minimum fund balance of 6% and a maximum of 20% of expenditures. The village does not maintain a formal debt management policy but has adopted an investment policy that states it will comply with state statutes.

Strong budgetary performance

Brightwaters' budgetary performance is strong in our opinion. The village had operating surpluses of 4.6% of expenditures in the general fund and 4.6% across all governmental funds in fiscal 2015.

The current management team took over in October 2014, following a period of generally negative financial performance. We understand the recent positive results have been due to the renegotiation of service fees associated with the village attorney and accountant and increased revenue associated with sanitation fees and building permits. Brightwaters has 10 full-time and 47 part-time employees; its single labor contract expires May 31, 2016, and is currently being negotiated. While the village offers a full range of services, it notably receives emergency services from the Suffolk County Police Department and Bay Shore Fire Protection District.

Management projects a surplus for fiscal 2016, and we believe performance will remain strong. Management has also budgeted for balance operations in fiscal 2017.

Very strong budgetary flexibility

Brightwaters' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 16% of operating expenditures. The village's reserves are low on a nominal basis at \$389,000, which we view as vulnerably low and a negative credit factor.

Surpluses in 2014 and 2015 raised reserves to positive levels, though the amounts are still nominally low. Brightwaters posted negative general fund balances in two of the past five audited fiscal years. It closed 2013 with a negative \$57,293 balance, or 2.3% of general fund expenditures. We expect flexibility to remain very strong over the next two years.

Very strong liquidity

In our opinion, Brightwaters' liquidity is very strong, with total government available cash at 15.6% of total governmental fund expenditures in 2015. In our view, the village has satisfactory access to external liquidity if necessary.

The village maintains deposits in FDIC-insured institutions and holds investments in NYCLASS, which we do not consider aggressive. We do not expect cash levels to deteriorate and, as such, expect the liquidity score to remain very strong.

Very strong debt and contingent liability profile

In our view, Brightwaters' debt and contingent liability profile is very strong. Brightwaters does not pay any debt service out of governmental funds, but net direct debt is 63.2% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, and all direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The village had no bonded debt outstanding in fiscal 2015, resulting in no carrying charges. It has a \$1.6 million debt authorization, with issuance likely in fiscal 2017, to finance the replacement and reconstruction of canal bulkheading.

Brightwaters' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.8% of total governmental fund expenditures in 2015. Of that amount, 3.7% represented required contributions to pension obligations, and 2.1% represented OPEB payments. The village made its full actuarially determined pension contribution in 2015.

Substantially all village employees participate in the New York State and Local Employees' Retirement System (ERS). The village has neither amortized its retirement liability nor participated in the pension smoothing option.

The village also offers single-employer defined-benefit postemployment benefits, and has an unfunded actuarial accrued liability of \$2.08 million.

Strong institutional framework

The institutional framework score for New York villages is strong.

Outlook

The stable outlook reflects our view of Brightwaters' very strong economy, supported by its participation in the robust New York City metropolitan statistical area, and very strong liquidity and flexibility. The village also benefits from strong financial performance, which we believe also lends stability to the rating. As such, we do not currently expect to change the rating within the outlook's two-year horizon.

Upside scenario

If the village were to demonstrate a record of strong performance and build reserves to levels we no longer consider nominally low, holding all other credit factors equal, we could raise the rating.

Downside scenario

Should the village experience operating deficits, requiring drawdowns on available reserves such that liquidity is no longer commensurate with those of similarly rated peers, we could lower the rating.

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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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