

RatingsDirect®

Summary:

Brightwaters Village, New York; General Obligation

Primary Credit Analyst:

Rahul Jain, New York 212-438-1202; rahul.jain@spglobal.com

Secondary Contact:

Anne E Cosgrove, New York (1) 212-438-8202; anne.cosgrove@spglobal.com

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Brightwaters Village, New York; General Obligation

Credit Profile

US\$1.6 mil pub imp serial bnds ser 2016 B due 08/01/2031

Long Term Rating AA+/Stable New

Brightwaters Village pub imp serial bnds ser 2016 due 08/01/2025

Long Term Rating AA+/Stable Upgraded

Rationale

S&P Global Ratings raised its long-term rating one notch to 'AA+' from 'AA' on Brightwaters Village, N.Y.'s general obligation (GO) debt. At the same time, we assigned our 'AA+' rating to the village's series 2016B public improvement bonds. The outlook on all ratings is stable.

The upgrade is based on the village's continued strong performance, which has supported improvement in financial flexibility to a level we consider very strong and above a low nominal threshold.

The bonds are secured by the village's full faith and credit pledge.

We understand bond proceeds will be used to replace and reconstruct canal bulkheading in the village.

The rating reflects our opinion of 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 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 22% of operating expenditures;
- Very strong debt and contingent liability position, with no debt service paid from governmental funds and net direct debt that is 107.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.2% of 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 3,036, is located 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 183% of the national level and per capita market value of \$161,010. Overall, the village's market value grew by 2.4% over the past year to \$488.8 million in 2017. The county unemployment rate was 4.8% in 2015.

Brightwaters is a primarily residential community located along the south shore of Long Island. 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 rose 1.4% and 2.4% in fiscal 2016 and 2017, respectively, due partly to increased commercial development. Brightwaters maintains access to New York City through nearby transportation options, including the Southern State Parkway and the Bay Shore station of the Long Island Railroad.

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 3.9% of expenditures in the general fund and 3.7% across all governmental funds in fiscal 2016.

The village continued its recent strong performance in fiscal 2016 for the third consecutive year. Under a management team that took over in October 2014, efficiencies from consolidating professional services, associated fees, and savings on health care have sustained performance improvement.

Management also attribute fiscal 2016 results to lower-than-expected pension costs, stronger-than-budgeted building permit revenue, gas and fuel savings, and lower-than-expected snow removal costs. The village anticipates that from fiscal 2017 onward, some of the cost associated with higher debt service will be offset by recurring savings and revenue improvement in recent years. The village's single labor contract was renegotiated this year and will run through May 31, 2021. Given the continued improvement in the village's market values, recurring savings from efficiencies, and management's ability to plan for cost increases associated with labor and debt service, we believe performance will remain strong.

Very strong budgetary flexibility

Budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 22% of operating expenditures, or \$519,000.

Surpluses over the last three years have supported the accumulation of reserves to levels above those which we would consider nominally low. Given the recent strength in performance, and expectation for continued stability, we do not anticipate changing our opinion of the village's flexibility over the near term.

Very strong liquidity

In our opinion, Brightwaters' liquidity is very strong, with total government available cash at 22.4% of total governmental fund expenditures in 2016. In our view, the village has strong 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 believe the village has strong access to external liquidity, evidenced by GO debt issuance in the past year. In addition, the village is not exposed to variable-rate or privately placed debt that could result in undue contingent liabilities through acceleration events or interest-rate risk. 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 107.5% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, and approximately 82.2% of the 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 prior to issuance in the last month of fiscal 2016, resulting in a 0% carrying charge. The village currently has no authorizing resolutions for additional debt issuance.

Brightwaters' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.1% of total governmental fund expenditures in 2016. Of that amount, 2.5% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The village made its full annual required pension contribution in 2016.

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 has contributed 100% of its annual actuarially determined contribution over the past three years. Assuming a 7% discount rate, the plan fiduciary net position was 90.7% as of March 31, 2016.

The village also offers a single-employer other postemployment benefit (OPEB) plan, which had an unfunded actuarial accrued liability of \$2.29 million as of June 1, 2015. The village contributed 25.6% of its annual OPEB cost in fiscal 2016.

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 MSA, and very strong liquidity and flexibility. The village also benefits from a 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

Holding all other credit factors equal, if the village can consistently maintain strong operating results as debt service rises, supporting very strong reserves significantly above nominal thresholds, we could raise the rating.

Downside scenario

Should the village experience operating deficits, requiring drawdowns on available reserves and weakening fund balance and liquidity to a level no longer commensurate with those of similarly rated peers, we could lower the rating.

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

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