

# RatingsDirect®

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## Summary:

# Manorhaven, New York; General Obligation

### Primary Credit Analyst:

John Kennedy, New York + 1 (212) 438 2128; john.kennedy@spglobal.com

### Secondary Contact:

Lauren Freire, New York (1) 212-438-7854; lauren.freire@spglobal.com

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## Summary:

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### Credit Profile

Manorhaven Vill GO (AGM)

*Unenhanced Rating*

AA+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings raised its underlying rating on Manorhaven, N.Y.'s general obligation (GO) bonds outstanding three notches to 'AA+' from 'A+'. The outlook is stable.

The upgrade reflects our view that the village's recent solid performance has strengthened its overall financial position, as evidenced by available fund balance that has grown considerably on a nominal basis and also relative to the size of the budget. Over the past five years, available fund balance increased from negative 14.5% of operating expenditures at fiscal year-end 2013 to 22.3% at fiscal year-end 2018. The 2013 fiscal year included large, nonrecurring expenses for litigation related to cell tower construction, as well as damages related to Hurricane Sandy, that pushed fund balance into negative territory. A new management team's emphasis on building reserves through conservative budgeting and targeted revenue growth has dramatically increased the village's flexibility to withstand potential adverse operating conditions. These efforts culminated most recently with a fiscal 2018 year that raised reserves to \$885,000, above the level we consider nominally low, for the first time since we began rating the village's long-term debt. Although Manorhaven plans to obtain financing for several minor capital projects over the next few years, S&P Global Ratings does not expect the additional borrowing to affect the village's overall long-term credit profile.

Manorhaven's faith-and-credit GO pledge secures the bonds, including the statutory authorization to levy ad valorem taxes on all real property within the village, subject to applicable statutory limitations.

The long-term rating reflects our opinion of the village's:

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 22.3% of operating expenditures;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Very strong liquidity, with total government available cash at 22.7% of total governmental fund expenditures and 11.4x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 2.0% of expenditures and net direct debt that is 13.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value, but significant medium-term debt plans; and

- Strong institutional framework score.

### **Very strong budgetary flexibility**

Manorhaven's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 22% of operating expenditures, or \$885,000.

Over the past five years, fund balance has grown from negative \$773,000 (negative 14.5% of operating expenditures) at fiscal year-end 2013 to \$885,000 (22.3%). This sizable increase in reserves to levels we no longer consider nominally low is central to our view of Manorhaven's increased overall creditworthiness. In 2013, nonrecurring expenditures from Hurricane Sandy-related expenses and litigation linked to cell tower construction pushed available fund balance from (the still nominally low level of) \$451,000 to negative \$733,000. Even before 2013, we had considered reserves nominally low, with available fund balance ranging from \$264,000-\$451,000 in the three years prior.

Since then, after collecting FEMA reimbursements in 2014 and 2015, a new management team has focused on building fund balance levels. Targeted revenue growth from fee increases and overall more conservative budgets have been key to the village's efforts. Fiscal year 2018's excellent budgetary result solidified fund balance strength, increasing available reserves to \$885,000 from \$476,000 at fiscal year-end 2017. We expect flexibility will remain very strong in the near term with the projected surplus result in fiscal 2019 and management's indicated desire to maintain current fund balance levels.

### **Strong budgetary performance**

Manorhaven's budgetary performance is strong, in our opinion. The village had operating surpluses of 12.1% of expenditures in the general fund and 6.6% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results will likely remain strong but will moderate in the near term.

Consistent strong performance has reflected comprehensive and conservative revenue and expenditure budgeting and bolstered by fee increases in recent years. The village increased its impact fees to \$10,000 from \$5,000 per unit, observing that even the new higher fees were below those in surrounding municipalities. Management estimates that increased rental registrations of \$350 per unit have provided the general fund with an additional \$100,000 in revenue each year. Biannual registration fee growth and stronger-than-expected court fees, as well as below-budget public safety and transportation costs contributed to the strong year.

We expect strong financial performance will continue, with a projected fiscal year 2019 surplus in excess of \$100,000. Management reports budget-to-actuals are tracking well, with minimal unexpected costs and strong revenue growth. While the village has not yet adopted a fiscal 2020 budget, we do not expect unusual budgetary pressure or weaker performance for the year. Property taxes typically generate around 70% of revenue while state aid and other fees and charges generate a majority of the remainder. The village has settled its labor union contracts through May 2020 and has only four employees covered under the agreement. It contracts fire protection through the Port Washington Fire Department, and Nassau County provides police protection.

### **Very strong economy**

We consider Manorhaven's economy very strong. The village, with an estimated population of 7,197, is in Nassau County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 126% of the national level and per capita market value of \$136,043. Overall, market value grew by 5.8% over the past year to \$979.1 million in 2018. The county unemployment rate was 4.1% in 2017.

The village is primarily residential, with mostly multifamily residences and some condominiums and cooperative apartments. Building applications have increased substantially over the past several years, despite increases in building impact fees and rental unit registrations. The village board recently approved a project that includes 16 two-bedroom apartments and 1,300 square feet of retail space. We understand developers have expressed interest in other medium-scale residential projects. We expect these developments will provide some marginal tax base growth, and we do not expect to change our overall view of the village's economy in the near term.

### **Adequate management**

We view the village's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

The village incorporates five years of historical data and trend analysis and incorporates controls and inflation projections into its revenue and expenditure assumptions. Officials monitor budget-to-actual performance and provide the board a budget-to-actual report monthly. While the village can authorize transfers at any board meeting, it does not amend its budgets. It follows state investment guidelines, and cash balance reports are provided monthly to the board. While the village does not have a formal reserve policy, management reports it is in the preliminary stages of adopting one. The village does not produce a formal long-term financial plan or long-term capital plan, and it has not adopted a formal debt management policy.

### **Very strong liquidity**

In our opinion, Manorhaven's liquidity is very strong, with total government available cash at 22.7% of total governmental fund expenditures and 11.4x governmental debt service in 2018.

In our view, the village has strong access to external liquidity if necessary. It maintains its cash primarily in individual segregated accounts grouped by fund. Cash on deposit with financial institutions is collateralized in accordance with state statutes. There are no bank loans or direct-purchase debt outstanding. In addition, we understand all debt outstanding is fixed rate. There is no indication that the borough's liquidity position will deteriorate in the near term.

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

In our view, Manorhaven's debt and contingent liability profile is very strong. Total governmental fund debt service is 2% of total governmental fund expenditures, and net direct debt is 13.5% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, which is, in our view, a positive credit factor.

Negatively affecting our view of the village's debt profile are its significant medium-term debt plans. We calculate that Manorhaven had approximately \$615,000 in direct debt outstanding at fiscal year-end 2018. We understand it plans to issue about \$1.4 million in new-money debt beyond that amount within the next two years for sewer, park, and road work. Additionally, management indicated that the village will likely require additional financing for a second phase of

sewer system capital projects, but it does not know the timing or amount for the debt plans.

Manorhaven's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.2% of total governmental fund expenditures in 2018. Of that amount, 1.6% represented required contributions to pension obligations, and 0.5% represented OPEB payments. The village made its full annual required pension contribution in 2018.

The village participates in New York State Employees' Retirement System, which was about 98.2% funded, based on Governmental Accounting Standards Board Statement Nos. 67 and 68 reporting for pension assets and liabilities. The village continues to fund pensions at 100% of the annual required contribution despite state law changes that allow local governments to amortize these costs. Manorhaven is one of seven municipalities sponsoring a length of service award program (LOSAP) for active volunteer firefighter members of the Port Washington Fire Department. Its proportionate share of the total LOSAP liability was \$773,904 as of Dec. 31, 2016, the last valuation. The county provides OPEBs and pays the costs on a pay-as-you-go basis. At May. 31, 2016, the last valuation, the unfunded actuarial accrued liability was \$866,000.

### **Strong institutional framework**

The institutional framework score for New York villages is strong.

## **Outlook**

The stable outlook reflects our expectation that Manorhaven will likely maintain available reserves around current levels, or at least in excess of 15% of operating expenditures. In addition, we believe multiple residential developments in progress will provide additional rating stability through marginal expected economic growth. Therefore, we do not anticipate changing the rating within the two-year outlook horizon.

### **Downside scenario**

If budgetary performance deteriorated to below \$500,000 or to a point where we no longer considered very strong, we could lower the rating.

### **Upside scenario**

While unlikely, we would consider raising the rating if management adopted additional formalized policies and practices while economic metrics improved and financial indicators remained strong.

## **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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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