

CREDIT OPINION

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Chester (Town of) NY

Update to credit analysis

Summary

The Town of Chester (Aa3) has a moderate and expanding tax base supported by positive economic development trends and access to employment centers in Orange County and the rest of New York's downstate region. Consecutive draws on fund balance were partly driven by one-time capital expenses, and the town's financial position remains sound. The town has modest debt and pension burdens and correspondingly manageable fixed costs.

Credit strengths

- » Moderate, expanding tax base with credible expectations for continued growth
- » Sound financial position with adequate reserves and liquidity
- » Low overall leverage and manageable fixed costs

Credit challenges

- » Consecutive draws on fund balance in 2017 and 2018
- » Small reserves on an absolute basis
- » Growing reliance on sales, mortgage, and transfer tax revenues

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Continued tax base expansion
- » A trend of operating surpluses, leading to growth in reserves and liquidity
- » Growth in the property tax levy

Factors that could lead to a downgrade

- » Tax base contraction
- » A trend of operating deficits, leading to declines in reserves and liquidity
- » Increased reliance on economically-sensitive revenues

Key indicators

Exhibit 1

Chester (Town of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,237,399	\$1,179,780	\$1,205,863	\$1,229,574	\$1,276,797
Population	11,984	11,938	11,902	11,901	11,971
Full Value Per Capita	\$103,254	\$98,826	\$101,316	\$103,317	\$106,657
Median Family Income (% of USMedian)	160.9%	152.9%	147.3%	149.0%	149.9%
Finances					
Operating Revenue (\$000)	\$8,560	\$8,563	\$8,781	\$9,073	\$9,376
Fund Balance (\$000)	\$1,251	\$1,025	\$1,578	\$1,735	\$1,503
Cash Balance (\$000)	\$1,347	\$1,236	\$1,643	\$1,900	\$1,674
Fund Balance as a % of Revenues	14.6%	12.0%	18.0%	19.1%	16.0%
Cash Balance as a % of Revenues	15.7%	14.4%	18.7%	20.9%	17.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$4,384	\$3,787	\$3,690	\$3,168	\$6,380
3-Year Average of Moody's ANPL (\$000)	\$8,557	\$10,422	\$12,740	\$13,164	\$13,910
Net Direct Debt / Full Value (%)	0.4%	0.3%	0.3%	0.3%	0.5%
Net Direct Debt / Operating Revenues (x)	0.5x	0.4x	0.4x	0.3x	0.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.7%	0.9%	1.1%	1.1%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.2x	1.5x	1.5x	1.5x

Total full value (\$000) grew to \$1,334,617 in 2018 and \$1,427,306

Source: Moody's Investors Service; town's audited financial statements

Profile

The town encompasses 25 square miles in Orange County, approximately 65 miles northwest of New York City. The population was 11,971 as of 2017.

Detailed credit considerations

Economy and Tax Base: Expanding tax base supported by economic development and proximity to employment centers

The town's \$1.4 billion tax base is moderate for the sector and has grown 21% over the last five years after contracting significantly during the economic downturn. Management credits recent expansion to the rapid pace of development throughout Orange County (Aa1 stable), and expects continued growth driven by a new 431-unit single-family home subdivision under development, a proposed resort, and the \$500 million Legoland theme park development expected to open in neighboring Goshen in 2020. An exit from the theme park will lead visitors into Chester, and officials expect significant new employment opportunities and increased economic activity when the attraction opens.

Wealth and incomes of the town's residents are in line with Orange County and above average for the sector, with median family income of 149.9% of the U.S. median and full value per capita of \$119,230, well above the New York State median of \$80,120. The town itself contains multiple large wholesalers and distributors, and town residents benefit from employment opportunities in New York and New Jersey metropolitan area as well as in Newburgh, Middletown, and Goshen in Orange County.

Financial Operations and Reserves: Sound financial position despite consecutive draws on fund balance

The town's financial position is stable and should remain so going forward despite modest draws on general fund reserves in 2017 and 2018. At the end of 2017, the town's financial position was sound, with available fund balance equal to 16% of operating revenues and

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cash equal to 17.9% of operating revenues. New management is reviewing proposals for a formal fund balance policy, and expects balanced operations in 2019.

Management attributed an approximately \$230,000 draw on available operating (general, highway town-wide, highway part-town, and debt service) fund balance in 2017 to a practice of targeting certain funds for growth in any given fiscal year. Unaudited 2018 results show an approximately \$200,000 draw on fund balance during the fiscal year, driven by one-time expenditures on capital projects.

The 2019 budget for the town's operating funds was 8.5% larger than the 2018 budget and was supported by an approximately \$600,000 fund balance appropriation and budgeted growth in sales tax and departmental income.

The town reduced the property tax levy for its operating funds between the 2017 and 2018 budget years and kept it flat for the 2019 budget, in part because of growing sales tax, mortgage tax and transfer tax revenues. Over time, increased reliance on economically-sensitive revenues could put negative pressure on the town's credit profile. Management tentatively expects an increase to the property tax rate in 2020.

LIQUIDITY

At the end of fiscal 2017, the town held \$1.7 million in cash and investments, which at 17.9% of revenues is below the rating category median.

Debt and Pensions: Low overall leverage with manageable fixed costs

The town has below average debt and pension burdens with manageable fixed costs that should stay stable in the near term.

Inclusive of debt to be issued in March of 2019, the town's net direct debt burden will increase to 0.5% or 0.8x operating revenues. The town has no significant future debt plans and expects debt service to stay level in the coming years as new bonds are offset by maturing debt.

DEBT STRUCTURE

All of the town's debt is fixed rate. Amortization is slower than average with 59.3% of principal maturing within ten years. The outstanding long term debt and notes are secured by a general obligation pledge as limited by the Property Tax Cap - Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Town management expects to continue fully funding annual obligations for the town's manageable pension and retiree healthcare liabilities.

The town participates in the New York State and Local Employees Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), two multi-employer, defined benefit retirement plans sponsored by the State of New York (Aa1 stable). The town's three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$13.9 million, or a moderate 1.5x operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities.

Negatively, New York State law does not allow for local governments to fund a trust for retiree healthcare benefits (OPEB). While legislation to allow local governments to fund a trust is currently under discussion, the town continues to fund its annual OPEB cost on a pay-go basis. This cost was approximately \$353,000 (3.8% of revenues) in fiscal 2017. Absent legislation, or changes to benefits, the district's OPEB liability will continue to grow, placing pressure on future budgets.

Total fixed costs (comprised of pensions, OPEB, and debt service) were a manageable 15.7% of operating revenues in fiscal 2017.

Management and Governance

New management is pursuing economic development opportunities and expects to adopt a formal fund balance policy in the near future.

New York Towns 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 Towns 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% and 10% annually.

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