MOODY'S INVESTORS SERVICE

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Tuckahoe (Village of) NY

Update following upgrade to A2 and assignment of a positive outlook

Summary

The Village of Tuckahoe (A2) benefits from a growing tax base favorably located 15 miles north of Manhattan in Westchester County, NY. New budgeting and expense management procedures have improved the village's financial position in recent years, and the village has low leverage and manageable fixed costs. The village's primarily residential tax base has a history of volatility stemming from property tax appeals, and reserves remain narrow for the rating category.

On February 28, 2018, Moody's Investors Service upgraded the village to A2 from A3 and assigned a positive outlook.

Credit strengths

» Affluent and expanding tax base near New York City

» Improved financial position with sound reserves and liquidity

» Modest leverage with manageable fixed costs

Credit challenges

» Narrow reserves for the rating category

» Volatile predominantly residential tax base, with historical pressure from tax appeals

Rating outlook

The outlook reflects the positive trends in the village's financial position and the likelihood that it will strengthen over the next several fiscal years.

Factors that could lead to an upgrade

» A trend of operating surpluses, leading to material growth in liquidity and reserves

» Continued tax base expansion

» Diminished pressure from tax appeals

Factors that could lead to a downgrade

» A trend of operating deficits, leading to declines in liquidity and reserves

» Tax base contraction

» Greater than expected pressure from tax appeals

Key indicators

Exhibit 1

Tuckahoe (Village of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$998,978	$940,076	$912,410	$993,646	$1,097,327
Population	6,519	6,559	6,586	6,615	6,615
Full Value Per Capita	$153,241	$143,326	$138,538	$150,211	$165,885
Median Family Income (% of US Median)	153.4%	134.5%	150.4%	150.4%	150.4%
Finances					
Operating Revenue ($000)	$11,163	$11,656	$11,655	$12,399	$12,851
Fund Balance ($000)	$406	$9	$553	$1,356	$1,795
Cash Balance ($000)	$1,234	$227	$1,162	$3,033	$2,874
Fund Balance as a % of Revenues	3.6%	0.1%	4.7%	10.9%	14.0%
Cash Balance as a % of Revenues	11.1%	1.9%	10.0%	24.5%	22.4%
Debt/Pensions					
Net Direct Debt ($000)	$4,262	$3,930	$5,348	$6,523	$5,994
3-Year Average of Moody's ANPL ($000)	$11,934	$15,113	$17,953	$18,965	$19,826
Net Direct Debt / Operating Revenues (x)	0.4x	0.3x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.6%	0.7%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.1x	1.3x	1.5x	1.5x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.6%	2.0%	1.9%	1.8%

Total full value ($000) grew to 1,147,293 in fiscal 2018

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

Profile

The Village of Tuckahoe is in the Town of Eastchester (Aaa) in Westchester County (Aa1 stable), 15 miles north of Manhattan. The population was 6,586 as of 2015.

Detailed credit considerations

Economy and Tax Base: Affluent tax base pressured by tax appeals

The village's primarily residential, $1.15 billion tax base has expanded rapidly in recent years and should continue growing at a moderate pace because of ongoing development and its favorable location in the New York metropolitan area.

After moderate post-recession contraction, Tuckahoe's full value has grown at a 2.8% average annual rate over the last five fiscal years because of market appreciation and from a large housing development coming onto tax rolls in stages. A 150-room hotel and approximately 50 units of additional housing will enlarge the tax base over the next few years.

Property tax appeals have pressured Tuckahoe's tax base and budget, and in fiscal 2016, the village issued debt to pay $844,420 in refunds accumulated in prior years. The village now budgets $140,000 annually for tax refunds, and faces a manageable maximum liability of $250,000 in fiscal 2018.

Tuckahoe's wealth and income indicators are above average for the sector and the region, with median family income at 150.4% of the U.S. median (above the national A2 category median of 84.2%) and high full value per capita of $173,438 (well above the national

A2 category median of $52,738). The village contains two Metro-North Railroad stations, and residents benefit from employment opportunities in New York City and other nearby metro centers.

Financial Operations and Reserves: Improving financial position with narrow reserves

After a series of operating deficits brought available general fund balance to 0.1% of revenue after fiscal 2014, the village's financial position has improved significantly over the last three fiscal years, and should stay stable going forward.

Conservative budgeting, expenditure controls, and modest growth in the property tax levy and other revenue streams have stabilized and improved of the village's finances. While new management issued debt to pay tax certiorari refunds, the issuance did not substantially increase the village's annual debt service. New budgeting procedures have helped the village control other operating costs, and overall expenditures were nearly flat from fiscal 2013 through fiscal 2017.

Between fiscal 2015 and fiscal 2017 the village added approximately $1.8 million to general fund balance. At the end of fiscal 2017, general fund balance of 14% of revenues was adequate if still below the national rating category median of 28.4% of revenues.

The village did not exceed the property tax cap for fiscal 2018, and projects a modest operating surplus that will add approximately $50,000 to fund balance.

LIQUIDITY

The village held $2.9 million in cash and investments (22.4% of revenues) at the end of fiscal 2017, near the national rating category median of 28.2% of revenues.

Debt and Pensions: Low leverage with manageable fixed costs

The village has low overall leverage and manageable fixed costs that should stay stable in the near-term, as the district faces level debt service requirements, makes OPEB contributions on a pay-go basis, and funds the actuarially required contribution (ARC) on its pension liabilities.

At the end of fiscal 2017, the village had $6 million (0.6% of full value) in debt outstanding, and debt service represented an affordable 5.5% of operating revenues during the fiscal year. The village expects to issue between $1 million and $1.5 million in new debt in the medium term for multiple small capital projects, which will not materially increase the debt burden.

DEBT STRUCTURE

All of the village's debt is fixed-rate, with 84.5% of principal maturing within ten years.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The village participates in the New York State and Local Employees' Retirement System ("ERS") and 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 village made 100% of its 2017 annual required contribution (ARC) to the plan, a total of $1 million or 7.9% of operating revenues. The village's combined three year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data was $19.8 million, or a moderate 1.5 times 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 village's reported liability information, but to improve comparability with other rated entities.

The OPEB liability is funded on a pay-as-you-go basis, and the village contributed $670,000 or 5.2% of operating revenues in fiscal 2017. As of June 1, 2016 the most recent actuarial valuation date, the village had an unfunded actuarial accrued liability (UAAL) of $23.4 million.

Total fixed costs, comprised of pensions, OPEB and debt service, were a manageable 18.6% of operating expenditures in fiscal 2016.

Management and Governance

New York cities, towns, and villages have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI. However, this cap can be overriden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5% and 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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