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Ratings

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Summary:

New Hartford, New York; General Obligation

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Summary:

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Credit Profile		
US$8.267 mil pub imp bnds ser 2019 dtd 03/06/2019 due 03/06/2042		
Long Term Rating	AA-/Stable	New
New Hartford Twn GO (MAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to New Hartford, N.Y.'s series 2019 general obligation (GO) public improvement bonds. S&P Global Ratings also affirmed its 'AA-' issuer credit rating (ICR) and long-term ratings on the town's existing GO debt. The outlook is stable.

The town's faith-and-credit pledge, payable from revenue from the levying of ad valorem taxes levied on all real property within its borders secures the bonds. We understand that officials plan to use proceeds from the approximately $8.3 million bonds to permanently finance roughly $7.4 million in short-term debt for previous projects and also permanently finance new minor capital projects and purchases.

A history of solid financial performance leading to sizable reserves supports New Hartford's credit profile. The potential loss of New York State AIM funding could present headwinds for the town. For more details on these risks, see our report, "Proposed New York State Budget Cuts AIM Finding, May Spell Long-Term Financial Stress For Municipalities" (published Feb. 6, 2019, on RatingsDirect). In our view, management has already identified expenditure-side contingency plans for fiscal year 2019 and revenue-side plans for the future that we believe will be adequate to address the challenge. We expect the town will leverage its stable, residential tax base and marginally improving economy to maintain its strong budgetary performance and financial position.

The rating reflect our opinion of the town's:

- Adequate economy, with market value per capita of $78,007 and projected per capita effective buying income (EBI) at 119% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 54% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.5% of total governmental fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.4% of expenditures and net

direct debt that is 113.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) obligation; and

- Strong institutional framework score.

Adequate economy

We consider New Hartford's economy adequate. The town, with an estimated population of 21,965, encompasses 24.7 square miles, adjacent to the southwest of Utica and approximately 50 miles east of Syracuse in Oneida County. It has a projected per capita EBI of 119% of the national level and per capita market value of $78,007. Overall, market value grew by 4.3% over the past year to $1.7 billion in 2019. The county unemployment rate was 5.1% in 2017.

New Hartford features a mix of agricultural and residential properties, and it also serves as the area's primary commercial, health care, and industrial center. Although Oneida County has experienced an estimated 3.6% population decline over the last decade, the town's population has remained relatively stable during the same period.

According to officials, the town also continues to experience stability among its leading employers. New Hartford hosts some of the region's major employers, including Faxton's St. Luke's Healthcare (2,494 employees), Sangertown Mall (1,347), ConMed (703), Utica National Insurance Group (687), and Hartford Insurance (600). In our view, roughly 14.7% of taxable assessed value (AV) comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion.

Since 2014, the town experienced a cumulative 8.7% increase in its total market value due to new commercial retail and office park developments. From 2017 to 2019, however, its total AV fell by 1.2%, but officials anticipate the tax base trend will reverse following construction of several realized and prospective senior housing developments. Within the two-year outlook period, we anticipate the town's wealth and income characteristics to remain, at least, stable.

Adequate management

We view the town'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.

Key budgeting practices include management's analysis of five years of historical data trends to guide revenue and expenditure assumptions. In formulating its annual budget, management consults the county assessor to calculate adjustments to AV and estimate the subsequent year's tax levy. The town also tracks state legislative publications, tax certiorari claims, and local economic conditions. Historically, management conservatively budgets its expenditures to account for changes in contractual obligations (salary, benefits, etc.) and variable costs.

During each fiscal year, management monitors budget-to-actual performance, and the town's supervisor delivers a report to the town board monthly. As necessary, management recommends budget amendments to address expenditure reclassifications and supplemental appropriations, which the board must approve. Furthermore, the town's investment policy follows state guidelines. The board reviews the investment policy annually, but management only presents investment earnings and holdings through its annual audit.

New Hartford conducts some capital planning and financial forecasting on an informal basis for individual departments and budget line items. However, we understand that the plans are not updated on a rolling basis to sustain ongoing planning for capital projects and budget conditions across an extended time horizon. In addition, New Hartford does not have a formal debt management policy, but it adheres to state statutes governing debt limitations. At the same time, the town lacks a formal fund balance policy, but it maintains an informal fund balance target of at least 20% of budgeted expenditures.

Strong budgetary performance

New Hartford's budgetary performance is strong, in our opinion. The town had surplus operating results in the general fund of 4.5% of expenditures, and balanced results across all governmental funds of negative 0.1% in fiscal 2017. For analytical consistency, we adjusted fiscal 2017 total governmental funds results for debt-financed capital outlays.

Due to the town's presence as a leading commercial center in the county, it primarily relies on a mix of property taxes (33.8% of general whole town fund revenue) and sales tax (31.9%), followed by state aid (12.2%).

Over the last three audited fiscal years, the town posted consecutive operating surpluses, which management attributes to conservative budgeting of local tax revenue and regular monitoring of departmental spending throughout the fiscal year. For fiscal 2017, the town recognized higher-than-expected storm damage expenditures, although this was outpaced by better-than-budgeted growth in sales tax.

Unaudited results for fiscal 2018 reflect another operating surplus of approximately $250,000 and total governmental funds surplus of $450,000-600,000. This surplus includes current-year and ongoing-cost savings from the retirement of highly paid personnel.

The town's adopted fiscal 2019 budget totals $14.56 million. Management budgeted for the 2019 tax levy to increase by approximately 3.75%, in part to cover the additional debt service from this issuance and still within the state's tax levy cap. The New York State governor's budget proposal included a cut to New Hartford's AIM funding that could pressure the town's 2019 budget, which did not include the cut. In our view, management has already identified expenditure-side contingency plans for fiscal year 2019 and revenue-side plans for the future that we believe would be adequate to address the challenge. Although debt service is likely to increase with this issuance, the town has sold two pieces of land and will use the proceeds to partially offset the increase in the near term. Due to its history of producing consistently positive operating results, we believe the town will likely adjust revenue projections and operating expenditures, as necessary, to sustain strong budgetary performance.

Very strong budgetary flexibility

New Hartford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 54% of operating expenditures, or $2.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Although New Hartford lacks a formal reserve policy, it has historically maintained available general fund balances above its internal target of 20% of budgeted expenditures. Although consecutive operating surpluses contributed to the growth of fund balance relative to the size of the general fund budget, we note that a financial reporting fund reorganization was mainly responsible dramatic relative increase in fiscal year 2017.

Due to management's projections for a $450,000-$600,000 total governmental funds surplus for fiscal 2018 and conservative expectation for, at least, break-even results for fiscal 2019, we believe the town's reserves will likely remain very strong over the next two years.

Very strong liquidity

In our opinion, New Hartford's liquidity is very strong, with total government available cash at 27.5% of total governmental fund expenditures and 3.7x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Our opinion that New Hartford maintains strong access to external liquidity reflects its history of issuing GO bonds and notes over the past 20 years. Furthermore, we do not consider the town's investments aggressive. It holds available cash in short-term investments with original maturities of three months or less from date of acquisition.

Currently, New Hartford does not currently have any variable-rate or direct-purchase debt, and management has confirmed it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. For these reasons, available cash remains stable and we expect liquidity to remain very strong over the next two fiscal years.

Adequate debt and contingent liability profile

In our view, New Hartford's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.4% of total governmental fund expenditures, and net direct debt is 113.3% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor.

Following the series 2019 bond issue, New Hartford will have approximately $15.9 million of total direct debt outstanding. In addition, the town's proportionate share of overlapping GO debt with Oneida County, the villages of New Hartford and New York Mills, and four school districts is nearly $30.7 million. However, the town does not currently have any privately placed or variable interest rate debt outstanding.

The town does not plan to issue additional debt over the next two years, as funding for all identified capital projects is included in this bond. At some point in the near future, although perhaps not within the next two years, the town may obtain a $500,000-$600,000 loan through the power authority in additional debt for an LED lighting project. Management indicated it intends to structure this loan so that any debt service would be covered by energy savings.

In our opinion, a credit weakness is New Hartford's large pension and OPEB obligation. New Hartford's combined required pension and actual OPEB contributions totaled 8.8% of total governmental fund expenditures in 2016. Of that amount, 6.2% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The town made its full annual required pension contribution in each of the last three fiscal years.

New Hartford participates in the New York State & Local Employees' Retirement System (ERS) and the New York State Police & Fire Retirement System (NYSPFRS), which were about 98.3% and 96.9% funded, respectively, at March 31, 2018, based on Governmental Accounting Standards Board Statement (GASB) Nos. 67 and 68 reporting for pension assets and liabilities. The town has taken steps to mitigate the expense through the negotiation of employee contracts and attrition. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable since it is slightly more conservative than the national average. At Dec. 31, 2017, the town reported liabilities of $855,000 and $1.2 million for its proportionate shares of the net pension liabilities for ERS and NYSPFRS, respectively.

Currently, there is no expectation that the town would amortize any of its pension costs.

The town also provides OPEBs to its employees and funds that obligation on a pay-as-you-go basis. It should be noted that the state does not allow for prefunding of OPEBs. As of the most recent valuation date, Jan. 1, 2017, the town's unfunded actuarial accrued liability for its OPEBs was $17.8 million. The town's actual pay-as-you-go contribution was 19.9% of the $2.0 million OPEB required contribution, based on GASB Statement No. 75 reporting for OPEBs. While we believe the town is currently managing OPEB costs, we recognize the expense is likely to increase in the future and may pressure budgets, which could lead us to revise our view of the town's contingent liability profile.

Strong institutional framework

The institutional framework score for New York State towns is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that New Hartford will likely maintain its historically strong and stable budgetary performance, which we believe will support its very strong budgetary flexibility and liquidity. It also reflects our expectation that the town will likely maintain a moderate debt and contingent liability profile since debt service costs remain low and should not pose an immediate budgetary challenge. For these reasons, we do not expect to change the rating during the next two years.

Upside scenario

All other rating factors remaining equal, we could raise the rating if New Hartford's wealth and income characteristics improve to levels we view as commensurate with higher-rated peers, while the town institutes more formal practices and policies and demonstrates the ability to manage costs associated with its long-term liabilities.

Downside scenario

We could lower the rating if New Hartford were to undergo a sustained period of adverse budgetary performance, resulting in a significant deterioration of available reserves or diminished liquidity. In addition, we could also do so if pension and OPEB costs were to rise substantially, placing negative pressure on the town's finances.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017

Ratings Detail (As Of February 14, 2019)		
New Hartford Twn pub imp rfdg bnds ser 2018 dtd 04/02/2018 due 03/01/2032		
Long Term Rating	AA-/Stable	Affirmed
New Hartford Twn GO		

Ratings Detail (As Of February 14, 2019) (cont.)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.