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Summary:

Red Hook Town, New York; General Obligation

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Summary:

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Credit Profile

US\$1.915 mil pub imp serial bnds ser 2016 due 06/01/2035

<i>Long Term Rating</i>	AA/Stable	New
Red Hook Twn pub imp (serial) bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Red Hook Twn GO (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on Red Hook, N.Y.'s general obligation (GO) debt one notch to 'AA' from 'AA-'. The outlook is stable.

The rating action reflects our opinion of the town's significant increase in available fund balances, coupled with its improvement of financial management practices and policies.

At the same time, S&P Global Ratings assigned its 'AA' rating and stable outlook to the town's series 2016 GO public improvement (serial) bonds.

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

We understand officials intend to use series 2016 bond proceeds to refund a portion of the principal of the town's series 2009 GO public improvement (serial) bonds.

The rating reflects our opinion of the town's:

- 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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 56% of operating expenditures;
- Very strong liquidity, with total government available cash at 59.8% of total governmental fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 15.6% of expenditures and net direct debt that is 71% of total governmental fund revenue, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Strong economy

We consider Red Hook's economy strong. The town, with an estimated population of 11,356, is in Dutchess County in the New York-Newark-Jersey City MSA, which we consider broad and diverse. The town has a projected per capita effective buying income of 104.3% of the national level and per capita market value of \$102,520. Overall, the town's market value was stable over the past year at \$1.2 billion in 2016. The county unemployment rate was 4.6% in 2015, which was lower than state and national averages of 5.3%.

Red Hook, which incorporates the villages of Red Hook and Tivoli, is a predominantly rural community with a mix of single-family residential development. The 36.7-square-mile town is in northwestern Dutchess County, approximately 54 miles south of Albany.

The town's somewhat limited economy hosts some retail and commercial activity along the U.S. routes 9 and 9G corridors. It is home to Bard College, a liberal arts college with approximately 2,500 graduate and undergraduate students. Management indicates the college recently purchased a 380-acre estate adjacent to the campus, which expands the campus to nearly 1,000 acres.

The property tax base is very diverse with the 10 leading taxpayers accounting for 5.13% of assessed value. Leading town taxpayers include:

- New York Central Lines LLC., a railroad company;
- Central Hudson G&E, a utility services provider; and
- Verizon.

At the same time, six of the 10 leading taxpayers are residential estates. Furthermore, Red Hook residents benefit, in our view, from the town's participation in the broad and diverse New York-Newark-Jersey City MSA. Over the past five fiscal years, the town's cumulative tax base has remained relatively flat at \$1.164 billion, or a 0.1% decline. However, management reports residential home sales reached an all-time high in 2015. In addition, officials note the town could see an uptick in new residential construction over the next few years, including a proposed 102-unit housing complex.

Strong management

We view the town's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Under our FMA methodology, we have revised the town's management policies and practices to good from standard.

Demonstrating Red Hook's key budgeting practices, management uses three years of historical information to forecast annual budget revenue and expenditures. Officials project annual revenue using state guidelines for aid payments and county property assessments, as well as other economic and demographic information. Management determines annual budget appropriations by assessing annual expenditures with department heads, as well as factoring in fixed costs such as debt service and retirement system contributions. The town also consults with its health insurance provider to estimate health cost increases. Management then identifies and prioritizes the remainder of budgeted appropriations based on community needs and department requests. Furthermore, management and department

heads monitor budget-to-actual performance results internally; management delivers monthly budget-to-actual reports to the town board to address budget variances.

In addition, Red Hook maintains a comprehensive five-year capital improvement plan (CIP) that it updates annually. The CIP identifies town priorities in each department and internal and external funding sources. Management also maintains a formal investment policy that largely mirrors the state's investment guidelines regarding eligible investments. The supervisor delivers a monthly report to the town board that tracks investment earnings and holdings.

Conversely, the town does not currently perform any long-term financial planning; according to management, it does not have a formal debt management policy, aside from adhering to basic state guidelines. At the same time, while Red Hook does not currently have a formal fund balance policy, it has an internal practice of maintaining fund balances at a minimum of \$500,000, which ranges between 20% and 30% of general fund expenditures annually. Despite the absence of a formal policy, the town has historically sustained reserves in excess of the \$500,000 minimum target.

Strong budgetary performance

Red Hook's budgetary performance is strong in our opinion. The town had operating surpluses of 24% of expenditures in the general fund and 13.9% of expenditures across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

At fiscal year-end Dec. 31, 2015, the town realized a \$355,157 general fund operating surplus, or approximately 24% of general fund operating expenditures. For analytical consistency, we adjusted for \$97,264 of net transfers into the capital projects fund from the town's general fund. Management attributes positive operating results to higher-than-budgeted revenue, specifically increases to property and local sales taxes. Furthermore, Red Hook realized lower-than-budgeted expenditures due to unexpended appropriations from its contingency fund, totaling \$153,000. Furthermore, it achieved cost savings from lower-than-expected auditing; engineering; and legal service expenses, as well as the deferral of a town parking lot paving project for two years.

The town balanced the fiscal 2016 general fund budget at nearly \$1.7 million, and management does not expect to appropriate reserves. The budget includes a millage increase of 0.73 mills, in-line with the state tax levy cap. Following the first quarter of fiscal 2016, management reports actual revenue is overbudget, led by higher-than-budgeted property and sales taxes. In addition, management notes expenditures remain on-target with the budget; the town regularly monitors variable costs, such as health premiums and fuel, to identify monthly and quarterly budget variances.

Likewise, the town expects to balance the fiscal 2017 budget with continued home sales and residential growth contributing to increased property tax and sales tax revenue. In addition, Red Hook does not currently have any collective bargaining organizations representing town employees; management expects salaries and benefits will remain in-line with historical averages. According to management, the town historically receives tax levy cap and state aid projections from the state during the summer. Management will draft a fiscal 2017 budget proposal for the town board's review by the end of September 2016.

Very strong budgetary flexibility

Red Hook's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 56% of operating expenditures, or \$835,000.

From fiscal years 2013-2015, the town continued to increase available reserves, which led to improved flexibility. In fiscal years 2016 and 2017, management indicates that it has limited capital needs and that it expects budgetary performance will remain on target with no planned appropriation of reserves.

At the same time, Red Hook maintains limited services that it manages, including basic highway construction and maintenance, parks and recreation, property assessment, building inspection, zoning administration, and local justice courts. The county and state police administer public protection services, and the county oversees fire protection through two fire protection districts. Two independent school districts oversee education services, and the county manages other social and health services.

According to management, the town does not currently have any collective bargaining organizations representing it 15 full-time and 33 part-time employees. Although we do not make an adjustment based on these conditions, we view Red Hook's relatively limited government service demands as a factor that could allow the town to maintain expenditure flexibility during times of budgetary pressure.

Furthermore, the town has an informal reserve practice of maintaining a fund balance of, at least, \$500,000, or a minimum of 20% of general fund expenditures, which the town has historically met and sustained. Therefore, we expect the town's flexibility to remain very strong over the next two fiscal years.

Very strong liquidity

In our opinion, Red Hook's liquidity is very strong, with total government available cash at 59.8% of total governmental fund expenditures and 3.8x governmental debt service in 2015. In our view, the town has strong access to external liquidity if necessary.

Red Hook is a regular market participant that has issued debt over the past several years, including GO bonds and refunding bonds. In addition, the town does not currently have any variable-rate or direct-purchase debt. Management confirms it does not currently have any contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Town investments are subject to state guidelines and Red Hook can only invest its cash in low-risk assets, including U.S. treasuries, bank deposits, and short-term certificates of deposit. For these reasons, we believe the town's available cash position remains strong and stable; we also expect its liquidity profile to remain very strong over the next two fiscal years.

Weak debt and contingent liability profile

In our view, Red Hook's debt and contingent liability profile is weak. Total governmental fund debt service is 15.6% of total governmental fund expenditures, and net direct debt is 71% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is, in our view, a positive credit factor.

Following the current bond issue, Red Hook will have approximately \$3.295 million of net direct debt outstanding. In addition, the town's proportionate share of overlapping debt totals approximately \$26.5 million, including debt from Red Hook and Rhinebeck central school districts (\$19.9 million combined), Dutchess County (\$3.6 million), and the

villages of Red Hook and Tivoli (\$3.3 million combined). According to management, the town does not currently have any sizable capital needs on the horizon that would weaken from current debt measures. Over the next three years, Red Hook does not currently plan to issue additional debt or notes. Despite the town's high carrying charge, due to its low overall net debt as a percent of market value, we do not expect our assessment of Red Hook's debt profile to weaken further.

Red Hook's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 4.4% of total governmental fund expenditures in fiscal 2015. Of that amount, 3.5% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The town made its full annual required pension contribution in fiscal 2015.

The town participates in the New York State & Local Employees' Retirement System, a multiemployer, defined-benefit plan. Historically, Red Hook has paid its full contribution to the system; the town expects its average contribution rate will decrease for the third consecutive year to 15.5% in fiscal 2017 from 18.2% in fiscal 2016. In fiscal 2015, the town reported a pension contribution of \$144,146, or 3.5% of total government expenditures; it budgeted to contribute \$129,411 in fiscal 2016. Furthermore, Red Hook typically makes a prepaid annual pension contribution in December of each year to take advantage of a discounted rate: It made the 2016 payment in December 2015.

In addition, Red Hook provides OPEB to its retirees in the form of health insurance coverage. According to the 2015 annual update document, the town paid \$35,204, or approximately 0.9% of total government fund expenditures. With combined required pension and OPEB contributions totaling 4.4% of total governmental fund expenditures in fiscal 2015, we expect the town's pension and OPEB liabilities will likely remain manageable over the next two fiscal years.

Strong institutional framework

The institutional framework score for New York towns is strong.

Outlook

The stable outlook reflects S&P Global Ratings' view of Red Hook's very strong liquidity and budgetary flexibility, coupled with strong historical budgetary performance, which will likely ensure the town's credit stability over our two-year outlook period. It also reflects the town's strong economy, enhanced by its participation in the broad and diverse New York-Newark-Jersey City MSA. Due to the town's strong budgetary performance and very strong budgetary flexibility, coupled with limited government service demands and improved management practices, it is unlikely we will lower the rating. At the same time, we consider the town's debt and contingent liability profile weak, with elevated debt service and net direct debt, which could pose a budgetary challenge. Therefore, we do not expect to change the rating within our two-year outlook period.

Upside scenario

All else being equal, we could raise the rating if wealth and income were to improve to levels we consider commensurate with the town's higher rated peers, coupled with management taking meaningful steps to mitigate elevated debt.

Downside scenario

We could lower the rating if the town were to experience negative operating results, resulting in a significant deterioration of reserves below \$500,000 and constraining liquidity.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 Update Of Institutional Framework For U.S. Local Governments

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

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