

RatingsDirect®

Summary:

Red Hook Town, New York; General Obligation

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Credit Profile

US\$0.985 mil pub imp rfdg (serial) bnds ser 2020 due 10/01/2031

<i>Long Term Rating</i>	AA/Stable	New
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Red Hook Twn pub imp (serial) bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Red Hook Twn GO (AGM)

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Red Hook, N.Y.'s roughly \$985,000 series 2020 public-improvement refunding serial general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the town's existing GO debt.

The town's faith-and-credit pledge secures the bonds.

Officials intend to use series 2020 bond proceeds to refund certain maturities for savings.

Credit overview

The rating reflects our view of Red Hook's strong local economy with access to a broad and diverse metropolitan statistical area (MSA), coupled with strong finances. With ongoing property development occurring in the town, coupled with its commitment to maintaining reserves at 50% of expenditures, we expect Red Hook is well positioned despite broader economic stress.

S&P Global Economics reports the national economy is coming out of a recession caused by COVID-19, but we expect to continue to see recessionary pressure. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Potholes On The Road To Recovery," published Sept. 29, 2020, and "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020, on RatingsDirect.)

The rating also reflects our opinion of the town's:

- Strong economy, with access to a broad and diverse MSA;
- Strong financial management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund and total governmental-fund level in fiscal 2019;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 57% of operating expenditures;

- Very strong liquidity, with total government available cash at 99.7% of total governmental-fund expenditures and 14.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 144.8% of total governmental-fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 74.1% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

The rating incorporates our view regarding the town's ESG factors relative to its economy; budget outcomes; management; and debt-and-liability profile, which we view as generally consistent with the sector standard. Although health-and-safety social risks stemming from the pandemic have resulted in a limited budgetary effect on the town in fiscal 2020, we think state aid and grant-funding reductions could accelerate if the state's fiscal stress persists. We view its governance and environmental risks as aligned with our view of the sector standard.

Stable Outlook

Downside scenario

We could lower the rating if the town were to experience negative operating results, resulting in significantly deteriorated reserves below \$500,000, which would constrain liquidity.

Upside scenario

All else being equal, we could raise the rating if wealth and income were to improve to levels we consider commensurate with higher-rated peers.

Credit Opinion

Strong economy

We consider Red Hook's economy strong. The town, with a population estimate of 11,247, is in northwestern Dutchess County in the New York-Newark-Jersey City MSA, which we consider broad and diverse. Projected per capita effective buying income is 105.8% of the national level and per capita market value is \$105,349. Overall, market value grew by 0.8% during the past year to \$1.2 billion in fiscal 2020.

The 36.7-square-mile town is about 54 miles south of Albany, where it incorporates the villages of Red Hook and Tivoli. The predominantly rural community has a mix of single-family residential development and several large estates. The somewhat limited local economy hosts retail and commercial activity along the U.S. routes 9 and 9G corridors. It is home to Bard College, a liberal-arts college with roughly 2,284 graduate and undergraduate students. Furthermore, Red Hook residents benefit from the town's participation in the broad and diverse MSA. The town is experiencing residential development through ongoing projects, as well as increased interest in existing housing stock. Based on early assessments for 2021, the town expects significant market value growth.

County unemployment was 3.6% in 2019. However, county unemployment increased to 14.2% in April 2020 during

the height of New York's COVID-19-related shutdown; the preliminary county rate has steadily decreased to 5.8% in September 2020, according to the U.S. Bureau of Labor Statistics. Therefore, in our view, the town could be insulated from economic weakness related to protracted elevated pandemic-related unemployment.

Strong management

We view the town's financial management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Key budgeting practices include management's use of three years of historical information to forecast annual budget revenue and expenditures. Officials are projecting annual revenue using state aid guidelines 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 contributions. The town also consults with its health-insurance provider to estimate 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 internally with management delivering monthly reports to the town board to address budget variances.

In addition, Red Hook updates its comprehensive five-year capital improvement plan annually that identifies priorities for each department and internal and external funding. Management also maintains a formal investment-management policy that largely mirrors state investment guidelines. The town supervisor delivers monthly investment-earnings-and-holdings reports to the board.

Conversely, the town does not currently perform formal long-term financial planning. According to management, it does not have a formal debt-management policy other than adhering to basic state guidelines. At the same time, Red Hook adopted a formal fund-balance policy in 2019 that states management will strive to maintain unexpended surplus funds at no less than 30% of expenditures but no more than 50% in general townwide funds and combined part-town funds; management aims to be closer to 50%.

Adequate budgetary performance

Our budgetary-performance assessment reflects potential challenges associated with ongoing economic recovery, coupled with planned pay-as-you-go capital projects that could weaken budgetary performance because Red Hook had surplus operating results in the general fund and across all governmental funds in fiscal 2019.

We have adjusted budgetary performance for capital outlay for the recreational project. Budgetary performance for fiscal 2019 was positive with revenue outperforming budgeted levels. Sales tax and certain other revenue also outperformed budgeted levels. In addition, general fund expenses came in underbudget through conservative budgeting. In fiscal 2019, property taxes generated 69% of general fund revenue and state aid, primarily mortgage taxes, accounted for 14%.

The fiscal 2020 budget was \$1.9 million, a slight increase from fiscal 2019. As part of the budget, the town included a pay-as-you-go capital project as it continues to spend down reserves in excess of the reserve policy. To mitigate

operational pressure of COVID-19 and weakened revenue, the town laid off a portion of its staff to streamline operations while providing the same level of services. In addition, town officials told departments to limit spending to only essential needs.

Sales tax and court fee revenue has decreased because the courts are not operating at pre-COVID levels. However, one significant revenue bright spot is the expectation of significantly higher mortgage tax revenue toward the end of the year because home buying continues at an elevated level. Despite expected growth in mortgage tax revenue, officials intend to draw down a portion of fund balance for a capital project started prior to the pandemic.

We note officials are finalizing the fiscal 2021 budget. Several budget initiatives should save the town money, including restructuring certain departments and offering online payments for some services. We expect that while management will likely continue to use a portion of reserves during the next few fiscal years, it will balance that with operational needs.

Very strong budgetary flexibility

Red Hook's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 57% of operating expenditures, or \$947,000. We expect available fund balance will likely remain more than 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Management has maintained fund balance at current levels for the past few fiscal years, which is above levels we consider nominally low. At the same time, Red Hook maintains limited services 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. Although we do not make adjustments based on these conditions, we view Red Hook's relatively limited government-service demands as a factor that could allow it to maintain expenditure flexibility despite budgetary pressure.

Furthermore, with the formal adoption of the fund-balance policy, we expect the balance will likely remain in excess of 30% of expenditures but closer to 50%. Therefore, we expect budgetary flexibility will likely remain very strong during the next two fiscal years.

Very strong liquidity

In our opinion, Red Hook's liquidity is very strong, with total government available cash at 99.7% of total governmental-fund expenditures and 14.1x governmental debt service in fiscal 2019. In our view, the town has strong access to external liquidity if necessary.

Red Hook is a regular market participant that has issued debt during the past several years, including GO and refunding bonds, supporting strong access to external liquidity. 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. Red Hook can only invest cash in low-risk assets, including U.S. treasuries, bank deposits, and short-term certificates of deposit. For these reasons, we think available cash remains strong and stable. Therefore, we expect liquidity will likely remain very strong during the next two fiscal years.

Strong debt-and-contingent-liability profile

In our view, Red Hook's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 7.1% of total governmental-fund expenditures, and net direct debt is 144.8% of total governmental-fund revenue. Overall net debt is low at 2.5% of market value and officials plan to retire about 74.1% of direct debt during 10 years, which are, in our view, positive credit factors.

Following the series 2020 issuance, Red Hook will have roughly \$4.6 million of net direct debt outstanding. According to management, it does not currently have any sizable capital needs that would weaken current debt measures. Red Hook currently has \$228,484 of authorized, but unissued, debt remaining. We would likely not consider any additional debt issuance during the next three years significant.

Pension and other-postemployment-benefit (OPEB) highlights

- We do not consider the town's pension and OPEB liability a credit pressure.
- Red Hook's OPEB liability is limited to health-insurance coverage for qualifying retirees and their survivors.

As of Dec. 31, 2019, Red Hook participates in New York State Employees' Retirement System, which was 96% funded, with a proportional share of the net pension liability equal to about \$135,560.

Red Hook's combined required pension and actual OPEB contribution totaled 3.1% of total governmental-fund expenditures in fiscal 2019: 2.5% represented required contributions to pension obligations and 0.6% represented OPEB payments.

Red Hook typically makes prepaid annual pension contributions in December to take advantage of a discounted rate. According to the 2019 annual update document, the town paid \$29,879 of OPEB to retirees and their spouses. We expect pension and OPEB liabilities will likely remain manageable during the next two fiscal years.

Strong institutional framework

The institutional framework score for New York towns is 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

- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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