Summary:

Red Hook, New York; General Obligation

Primary Credit Analyst:
Lauren Freire, New York (1) 212-438-7854; lauren.freire@spglobal.com

Secondary Contact:
Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has assigned its ‘AA’ long-term rating to Red Hook, N.Y.’s series 2019 $1.9 million public improvement serial general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its ‘AA’ long-term and underlying ratings on the town’s GO debt outstanding. The outlook for all issues is stable.

The town’s faith and credit pledge secures the bonds. The bond proceeds will fund various capital improvements throughout the town.

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 a strong financial performance. The town’s very strong liquidity and budgetary flexibility help offset its debt. With ongoing property development occurring in the town, coupled with the town’s commitment to maintain reserves at 50% of expenses, we may see draws related to one-time expenses rather than operational stress.

The rating reflects our view of the town’s:

- Strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating deficit in the general fund, but an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 55% of operating expenditures;
- Very strong liquidity, with total government available cash at 93.9% of total governmental fund expenditures and 10.6x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 188.0% of total governmental fund revenue, but low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

**Strong economy**

We consider Red Hook's economy strong. The town, with an estimated population of 11,368, is located in Dutchess County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 107.8% of the national level and per capita market value of $103,443. Overall, the town’s market value was stable over the past year at $1.2 billion in 2019. The county unemployment rate was 3.7% in 2018.

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

The town's somewhat limited economy hosts some retail and commercial activity along the U.S. Route 9 (US 9) and US 9G corridors. It is home to Bard College, a liberal arts college with approximately 2,284 graduate and undergraduate students. Furthermore, Red Hook residents benefit, in our view, from the town's participation in the broad and diverse New York-Newark-Jersey City MSA. After years of planning, developers have broken ground on a large residential development. The town's tentative tax roll for 2020 will grow by $40 million; we anticipate as more development occurs, the town's tax base will also expand, providing additional stability to the strong local economy.

**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.

Demonstrating Red Hook's key budgeting practices, management uses five 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 board that tracks investment earnings and holdings.

Conversely, the town does not 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, Red Hook recently adopted a formal fund balance policy that states the town shall strive to maintain unexpended surplus funds of not less
than 30% and not more than 50% of annual expenditures in the general townwide funds (A, DA), and the combined part town funds (B, DB). The town aims to be closer to the 50% end of the scale.

**Strong budgetary performance**
Red Hook's budgetary performance is strong, in our opinion. The town had slight deficit operating results in the general fund of 0.6% of expenditures, but a surplus result across all governmental funds of 16.0% in fiscal 2018.

The town has a history of strong performance. Recently, after a visit from the comptroller's office, the town decided to spend down a portion of its reserves on pay-as-you-go capital projects, as the comptroller's office has informed the town it had too much fund balance. The town's revenue has consistently come in as budgeted, as expenses have typically come under budget. There have been several instances of unexpected costs, but the town has been able to absorb these costs, within its operations. In 2018, the town's main source of revenue, in its general funds, was property taxes at 69% followed by state aid, primarily mortgage taxes, at 14%, of revenue.

The fiscal 2019 budget of $1.8 million does not include the use of fund balance. The town is anticipating an increase in intergovernmental charges, nonproperty tax items and state aid, to counter the increase in expenses, primarily debt service costs. Management is currently not reporting any issues in terms of budget-to-actual results, and we anticipate the town would finish at least breakeven. Moving forward, with the increase in tax-base development, and therefore the increased property tax revenue, we expect the town will maintain strong budgetary performance. If Red Hook has a negative year-end balance, we would anticipate that it would be the result of pay-as-you-go capital rather than a mismatch of revenues and expenses.

**Very strong budgetary flexibility**
Red Hook's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 55% of operating expenditures, or $908,000. 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.

The town has maintained its fund balance at current levels for past few years, which is above a level that we consider nominally low. Red Hook maintains basic highway construction and maintenance, parks and recreation, property assessment, building inspection, zoning administration, and local justice courts, which provide certain flexibility, as more variable costs, such as fire and police protection are provided by outside parties.

According to management, the town is currently negotiating with the United Public Service Employees Union representing its eight full-time highway employees, with the seven full-time employees not part of a union, 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, with the recent formal adoption of the town's formal fund balance policy, we expect the balance to remain in excess of 30%, close to 50% of its expenses. 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 93.9% of total governmental fund expenditures and 10.6x governmental debt service in 2018. 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 8.9% of total governmental fund expenditures, and net direct debt is 188.0% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, which is in our view a positive credit factor.

Following the current bond issue, Red Hook will have approximately $5.6 million of net direct debt outstanding. In addition, the town's proportionate share of overlapping debt totals approximately $27.5 million, including debt from Red Hook and Rhinebeck central school districts ($15.0 million combined), Dutchess County ($6.2 million), and the villages of Red Hook and Tivoli ($6.2 million combined). According to management, the town does not have any sizable capital needs on the horizon that would weaken from debt measures; currently there is $228,484, in authorized but unissued debt. Management indicates the town does not have any significant debt issuances over the next three years. As Red Hook continues to experience tax base development and increasing property taxes, we believe the town will use pay-as-you-go financing options, rather than long-term bonding.

Red Hook's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2018. Of that amount, 2.9% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The town made its full annual required pension contribution in 2018.

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. In fiscal 2018, the town reported a pension contribution of $127,837, or 2.9% of total government expenditures. Furthermore, Red Hook typically makes a prepaid annual pension contribution in December of each year to take advantage of a discounted rate.

In addition, Red Hook provides OPEB to its retirees in the form of health insurance coverage. According to the 2018 annual update document, the town paid $31,045 or approximately 0.7% of total government fund expenditures. With combined required pension and OPEB contributions totaling 3.6% of total governmental fund expenditures in fiscal 2018, 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 our 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 strong local economy, which is enhanced by the town's participation in the broad and diverse New York-Newark-Jersey City MSA. Given Red Hook's strong budgetary flexibility and performance, coupled with limited budget pressures 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 to be weak, with elevated debt service and net direct debt levels, which could pose a budgetary challenge. Therefore, we do not anticipate changing the rating during our two-year outlook horizon.

Upside scenario
All else equal, we could raise the rating if the town's wealth and income metrics improve to levels that we consider commensurate with those of higher-rated peers.

Downside scenario
We could lower the rating if the town experiences negative operating results, which cause a significant deterioration of reserves below $500,000 that constrains the town's liquidity.

Related Research
2018 Update Of Institutional Framework For U.S. Local Governments

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