Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the Town of Woodbury, N.Y.'s series 2020 public improvement serial general obligation (GO) bonds and affirmed its 'AA+' rating on the town's existing GO debt. The outlook is stable.

The town's faith and credit, including the levy and collection of ad valorem taxes for the payment of debt service, secures the bonds. The property taxes may be levied without limitation as to rate or amount, subject to certain statutory considerations. Proceeds will fund the construction of a new pool.

Credit overview

The GO rating reflects our view of the town's sizable available reserves as a percentage of its budget approaching 75% and minimal exposure to budget pressure associated with COVID-19. Furthermore, property taxes, which are its primary operating revenue source, are guaranteed by the county and not subject to risk associated with delinquent payments. Finally, although management does not maintain formal long-term financial and capital planning documents, we believe it uses various sources that support conservative budgeting policies that will likely lead to maintenance of budgetary balance. The stable outlook reflects our view of the area's importance as a retail and health care center, as well as the rapid economic expansion in the county that help keep the unemployment rate low.

The rating further reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019, which factor in our view that potential challenges associated with the recession that could weaken budgetary performance results as compared with historical operations;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 77% of operating expenditures;
- Very strong liquidity, with total government available cash at 57.0% of total governmental fund expenditures and 13.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 4.3% of expenditures and net direct debt that is 43.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 70.5% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Environmental, social, and governance factors

We have analyzed the town's environmental, social, and governance (ESG) factors relative to its economy, budget outcomes, management, and debt and liability profile, and view them as generally consistent with those of the sector. The state has required the town to provide a disaster relief plan as part of emergency planning for hurricanes, and the town has taken additional steps to prevent associated disasters through various flood mitigation strategies. Furthermore, we view the state statutory framework limiting the creation of trust funds to offset OPEB liabilities as a governance weakness for the New York State local government sector.

Stable Outlook

Downside scenario

Should retirement costs significantly increase with a greater portion of reserves used to fund the costs or should budgetary pressures arise that result in weaker liquidity and flexibility, we could lower the rating.

Upside scenario

We could raise the rating if Woodbury significantly reduces its retirement benefit liabilities in conjunction with the adoption of more robust management practices and policies, all while maintaining reserves and liquidity at levels that we view as very strong.

Credit Opinion

Very strong economy

We consider Woodbury's economy very strong. The town, with a population of 11,661, is in Orange County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 124% of the national level and per capita market value of $167,931. Overall, market value rose by 6.5% over the past year to $2.1 billion in 2020.

Woodbury is at the intersection of Interstate 87 (the New York State Thruway) and New York State Route 17. These roadways, along with regional rail service, provide residents with good access to employment bases in northern New Jersey, New York City, Newburgh, and Middletown. The town is primarily residential with some commercial and industrial properties, in addition to several sizable estates.

The town's largest employers are Woodbury Commons (2,500 employees), the Monroe Woodbury School District (1,302), and Woodbury Centre (85). Officials report that activity in the town's largest employer and taxpayer, Woodbury Commons, a popular outlet shopping destination, has not slowed. In addition to a new residential property currently finalizing development, a new hotel is being developed in the town and two more are pending planning board approval. Furthermore, the town is benefiting from economic development in the wider county which includes large commercial projects such as Legoland and an Amazon distribution center. Woodbury Commons itself contributes about 22.6% of total assessed value, which we understand has continued to fare well during the pandemic, and the top 10 taxpayers contribute 29%.

The county's unemployment rate was 6.4% in September 2020 after peaking at 15.7% in April. Although the county's annualized rate was 3.8% in 2019 and will likely not be greater than 10% in 2020, we will monitor how a second wave of the virus results in economic challenges for the region.

Adequate management

We view the town's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the town maintains adequate policies in some, but not all, key areas.

Management drafts the budget analyzing three years of historical data and is conservative, as actuals typically outperform the budget. In addition, we consider the town's budget monitoring sound, with budget-to-actual performance reports sent to the board monthly. Officials do not follow a formal long-term financial plan, capital improvement plan, debt management plan, or reserve and liquidity policy. The town follows state guidelines for investments and requires banks collateralize all of its deposits, although management does not report investment holdings and returns regularly.

Adequate budgetary performance

Woodbury's budgetary performance is adequate, in our opinion, which incorporates our assessment that budgetary performance could weaken compared with historical operations as a result of potential challenges associated with the recession. The town had operating surpluses of 4.0% of expenditures in the general fund and 1.8% across all governmental funds in fiscal 2019.

The town continues to deliver positive operating results. Local property taxes--the town's largest revenue source--are guaranteed by the county and contributed about 73% of fiscal 2019 general fund revenues. The county guarantees property taxes, eliminating the town's risk for delinquent payments.

The fiscal 2020 (ended Dec. 31) adopted budget was about $4.9 million. Management reports minimal costs associated with its COVID-19 response efforts, and although some taxes are staying below budget as a result of the stay-at-home orders required at the height of the pandemic earlier in the year, the town eliminated discretionary spending, reduced staff, and instituted a hiring freeze to offset the revenue loss. Furthermore, despite a decline in sales tax revenue, officials report better-than-expected results. As a result, fiscal 2020 operations are likely to generate positive results.

The fiscal 2021 adopted budget totals $4.59 million, and officials report that the budget is conservative in that it holds expenditures flat, reflecting economic and fiscal uncertainty. Despite the uncertainty, we believe management is closely monitoring budget-to-actual information and we expect it will take corrective action should revenue loss accelerate.

Very strong budgetary flexibility

Woodbury's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 77% of operating expenditures, or $3.6 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. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 79% of expenditures in 2018 and 75% in 2017.

The flexibility score reflects the town's general fund balance. Reserves we view as available, including those designated as assigned that can be made available through simple motion of the board, have remained in excess of 30% for the past three fiscal years. Officials estimate adding approximately $612,000 to the fund balance in fiscal 2020. There are no plans to significantly draw on fund balances and management expects reserves to remain stable. Therefore, we expect reserve levels will remain very strong beyond 2020.

Very strong liquidity

In our opinion, Woodbury's liquidity is very strong, with total government available cash at 57.0% of total governmental fund expenditures and 13.4x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

Woodbury's strong external liquidity is demonstrated by its issuance of GO bonds and bond anticipation notes within the past 10 years. Although the state allows for what we view as permissive investments, we believe the town does not currently have aggressive ones, with its cash and equivalents held in fully collateralized deposit accounts. The town has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Woodbury has consistently had very strong liquidity and we do not expect a change in its ratios.

Strong debt and contingent liability profile

In our view, Woodbury's debt and contingent liability profile is strong. Total governmental fund debt service is 4.3% of total governmental fund expenditures, and net direct debt is 43.1% of total governmental fund revenue. Overall net debt is low at 1.3% of market value, and approximately 70.5% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following the current transaction, the town will have about $25.8 million in total net debt outstanding, which includes overlapping debt of approximately $20.5 million. It does not plan to issue any additional debt over the next two-to-three years.

Pension and other postemployment benefit (OPEB) liabilities

- We believe pension and OPEB contributions could create fiscal stress, with costs of 14.1% of 2019 governmental fund expenditures (6.4% for pension and 7.6% for OPEBs), particularly should costs escalate from unfavorable health care trends or if the pension fund's investment returns fall short of assumptions.
- Although we believe that pension liabilities are less of a credit risk resulting from strong plan funding, the plan's aggregate cost method essentially creates an open amortization policy on a level percentage of pay basis assuming a 3.8% payroll growth rate. We generally view this negatively because the plan will never reach full funding and costs will increase each year.
- OPEB costs are funded on a pay-as-you-go basis and the state does not allow for prefunding of these costs.

The town participated in the following retirement plan as of Dec. 31, 2019:

- New York State Employees' Retirement System (NYSERS), which is 96.3% funded
- New York Police and Fire Retirement System (NYPFRS), which is 95.1% funded;

The town made its full annual required pension contribution in 2019. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable, but the rate could lead to contribution volatility as it exceeds our view of a conservative rate of return of 6% that could absorb market shocks.

The town funds 100% of its actuarially determined contribution, and fiscal 2019 actual contributions exceeded our view of minimum as well as static funding progress for both pension plans. However, the plans' aggregate cost method essentially creates an open amortization policy using a level percent pay basis assuming a 3.8% payroll growth rate, which we generally view negatively because the plans will never reach full funding and costs will increase annually. However, the plans' high funded ratios largely mitigate the risks of the town's costs increasing significantly.

The town offers OPEBs consisting primarily of health insurance coverage, and funds it with pay-as-you-go financing. These costs may be expected to rise substantially, potentially pressuring the budget. There is currently no ability under state statutes to accumulate assets to fund the future liability. The town contributed $576,889 of its $2.3 million annual required contribution in fiscal 2019. Its OPEB unfunded actuarial accrued liability for governmental funds totaled about $31.2 million as of Dec. 31, 2019, the latest valuation date.

Strong institutional framework

The institutional framework score for New York towns is strong.