MOODY'S
INVESTORS SERVICE

Rating Action: Moody's upgrades Mount Kisco Village, NY GOs to Aa1; assigns MIG 1 to BANs

16 Sep 2020

New York, September 16, 2020 -- Moody's Investors Service has upgraded to Aa1 from Aa2 Mount Kisco Village, New York's issuer and general obligation limited tax (GOLT) ratings. Additionally, Moody's assigns a Aa1 rating to the village's $3.6 million Public Improvement Serial Bonds - 2020. Moody's also assigns a MIG 1 rating to the village's $4 million Bond Anticipation Notes - 2020 Series B.

We consider the pledge supporting the outstanding bonds general obligation limited tax (GOLT) because of limitations under New York State law on property tax increases. The issuer rating is equivalent to the village's hypothetical GOULT rating. There is no debt associated with this security.

RATINGS RATIONALE

The upgrade of the issuer rating to Aa1 reflects the village's continued improvement in cash and reserve levels driven by strong fiscal management. Additionally, the rating reflects a moderately sized tax base conveniently located in Westchester County (Aa1 negative) near several major metro centers. Long-term obligations, including debt, pension, and OPEB, remain manageable.

The absence of distinction between the GOLT rating and the issuer rating reflects the village board's ability to override the property tax cap and the village's pledge of its faith and credit to pay debt service.

The MIG 1 rating reflects the long term credit quality of Mount Kisco Village, NY (Aa1) and anticipated take-out provisions.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the village. However, the situation surrounding COVID-19 is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of village changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant growth in tax base

- Significant improvement in socio-economic profile

- Reduction in long-term obligations

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Declines in reserves or liquidity

- Significant increase in debt or other long-term liabilities

- Significant decline in tax base

LEGAL SECURITY

The bonds and BANs are secured by the village's general obligation pledge as limited by the Property Tax Cap Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

USE OF PROCEEDS

Bond proceeds will finance the construction of improvements to various Village buildings and sites. BAN proceeds will finance the construction of water system improvements.

PROFILE

The village, located in northern Westchester County (Aa1 negative) approximately 25 miles north of New York City (Aa1 negative), encompasses an area of approximately 3 square miles and has a population of roughly 12,000. The village serves as the commercial and service center for the surrounding towns of Bedford (Aaa) and New Castle (Aaa stable) and has the highest job density in Westchester County. Outside of the commercial center, the village is composed of residential suburban neighborhoods as well as apartment complexes and condominiums. In addition to employment opportunities within the village, residents travel to jobs throughout Westchester County and New York City.

METHODOLOGY

The principal methodology used in the long-tem ratings was US Local Government General Obligation Debt published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. The principal methodology used in the short-term rating was Short-term Debt of US States, Municipalities and Nonprofits Methodology published in July 2020 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBM_1210749 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1133569 .

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CREDIT OPINION
16 September 2020

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Mount Kisco (Village of) NY

Update to credit analysis

Summary

The Village of Mount Kisco, NY (Aa1) benefits from continued improvement in cash and reserve levels driven by strong fiscal management. Additionally, the village maintains a moderately sized tax base conveniently located in Westchester County (Aa1 negative) near several major metro centers. Long-term obligations, including debt, pension, and OPEB, remain manageable.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the village. However, the situation surrounding COVID-19 is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the village changes, we will update the rating and/or outlook at that time.

On September 16, 2020, we upgraded the rating on the village's bonds to Aa1 from Aa2.

Credit strengths

» Strong budget management

» Ample reserves and liquidity

Credit challenges

» Socio-economic profile below average for the region

» Long-term obligations are above average

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

» Significant growth in tax base

» Significant improvement in socio-economic profile

» Reduction in long-term obligations

Factors that could lead to a downgrade

» Declines in reserves or liquidity

» Significant increase in debt or other long-term liabilities

» Significant decline in tax base

Key indicators

Exhibit 1

VILLAGE OF MOUNT KISCO	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$1,520,195	$1,744,518	$1,763,161	$1,797,194	$1,767,912
Population	11,060	11,062	10,994	10,894	10,894
Full Value Per Capita	$137,450	$157,704	$160,375	$164,971	$162,283
Median Family Income (% of US Median)	126.1%	125.2%	142.1%	150.4%	150.4%
Finances					
Operating Revenue ($000)	$21,364	$21,640	$23,776	$23,640	$22,480
Fund Balance ($000)	$9,668	$9,908	$10,793	$11,117	$12,712
Cash Balance ($000)	$15,933	$14,821	$15,370	$16,389	$17,392
Fund Balance as a % of Revenues	45.3%	45.8%	45.4%	47.0%	56.5%
Cash Balance as a % of Revenues	74.6%	68.5%	64.6%	69.3%	77.4%
Debt/Pensions					
Net Direct Debt ($000)	$20,605	$17,080	$14,805	$15,558	$23,419
3-Year Average of Moody's ANPL ($000)	$29,683	$30,833	$31,679	$23,469	$19,994
Net Direct Debt / Full Value (%)	1.4%	1.0%	0.8%	0.9%	1.3%
Net Direct Debt / Operating Revenues (x)	1.0x	0.8x	0.6x	0.7x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	1.8%	1.8%	1.3%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.4x	1.3x	1.0x	0.9x

Source: Moody's Investors Service and issuer's audited financial statements

Profile

The village, located in northern Westchester County (Aa1 negative) approximately 25 miles north of New York City (Aa1 negative), encompasses an area of approximately 3 square miles and has a population of roughly 12,000. The village serves as the commercial and service center for the surrounding towns of Bedford (Aaa) and New Castle (Aaa stable) and has the highest job density in Westchester County. Outside of the commercial center, the village is composed of residential suburban neighborhoods as well as apartment complexes and condominiums. In addition to employment opportunities within the village, residents travel to jobs throughout Westchester County and New York City.

Detailed credit considerations

Economy and Tax Base: Stable tax base conveniently located in Westchester County

The village's tax base will remain stable for the immediate future given its relatively built out nature. At $2 billion, full value has surpassed the village's pre-recession peak with a compound annual average growth rate of 2.4% over the past five years. Future growth will be driven by redevelopment around the village train station, which has easy access to New York City. Management reports the residential real estate market is performing well. While the pandemic has increased unemployment all throughout the region, the tax base has benefited from outmigration from New York City. Interest in homes on the market has increased substantially raising home values. The largest taxpayers make up a slightly concentrated 17% of fiscal 2021 assessed value.

Resident wealth and incomes are average for the region. Median family income represents 150% of the national median, while median home values represent 203%. The poverty rate of 7% is half the national average.

Financial Operations and Reserves: Strong and stable reserves driven by conservative budgeting

As a key driver of the upgrade to Aa1, the village's financial position will likely remain very strong as management continues to budget appropriately. Fiscal 2019 audited results were strong with sales taxes, interest income, and property taxes all outperforming the original budget. Additionally, the village was able to eliminate significant overtime by moving the police department to Westchester County. During the year, the village generated a $1.8 million surplus which led available fund balance to increase to $12.7 million or 57% of revenues.

Fiscal 2020 unaudited results reflect a $1.1 million surplus as the village was able to absorb the impact of COVID-19 very well by being conservative in its budgeting. The fiscal 2020 budget increased by 1.4% from the prior year with the tax levy increasing at the same rate. Management appropriated $600,000 of fund balance.

Fiscal 2021 year to date results are performing well. The budget fiscal 2021 budget increased by just $22,000. The tax levy increased by 3% and management appropriated $288,000 of fund balance. Included in our analysis of the village's strong financial position, we also review the water and sewer funds. Together, those funds have over $9 million of cash on hand and they generally operate at a surplus.

Liquidity

Cash and investments at the end of fiscal 2019 represented $17.4 million or a very strong 77.4% of revenues.

Debt and Pensions: Above average but manageable long-term liabilities

While the village's direct debt burden of 2% of full value appears above average relative to the state median of 0.8%, about half of that debt burden is attributed to the village's water and sewer funds. Those funds are generally healthy with over $9 million of cash. Outside of that adjustment, the village is not expecting any material debt issuance over the next several years, so we expect the village's debt service to remain manageable.

Legal security

The bonds and BANs are secured by the village's general obligation pledge as limited by the Property Tax Cap Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

The entire debt portfolio is fixed rate with 77% of principal retired in ten years. Fiscal 2019 debt service represented $787,000 or 4% of revenues.

Debt-related derivatives

The village is not party to any interest rate swaps or derivative agreements.

Pensions and OPEB

The village's unfunded pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The village participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the village’s 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2019	$$$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	22,480	n/a	n/a
Reported Unfunded Pension Liability	4,411	20%	6.75%
Moody's Adjusted Net Pension Liability	21,315	95%	3.85%
Reported Net OPEB Liability	29,116	130%	3.12%
Moody's Adjusted Net OPEB Liability	26,523	118%	3.69%
Net Direct Debt	23,419	104%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	71,257	316.98%	
Pension Contribution	990	4.41%	n/a
OPEB Contribution	1,036	4.61%	n/a
Debt Service	787	3.50%	n/a
Total Fixed Costs	2,813	12.51%	n/a
Tread Water Gap	109	0.49%	n/a
Moody's Adjusted Fixed Costs	2,922	13.00%	n/a

Operating revenues does not include Water Fund or Sewer Fund revenues. The long-term liabilities, however, do include the liabilities for those funds.
Source: Moody's Investors Service and issuer's audited financial statements

The village's 2019 pension contributions were slightly below tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the village participates experience returns on assets that fall short of their assumptions, the village's required pension contribution will increase. Because it is not pre-funding OPEB benefits as they accrue, which is not permitted under New York State law though changing that is under discussion in the legislature, the village's OPEB costs will likely escalate as the number of retirees it covers grows and retirees age.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, represented a manageable 12.5% of operating revenues. However, return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

ESG considerations

Environmental

There are no major environmental considerations.

Social

Outside of the coronavirus information discussed above, there are no major social considerations.

Governance

Management maintains long term capital planning and budgets conservatively as evidenced by operating surpluses in each of the last six years.

New York villages have an Institutional Framework score of “Aa”, which is strong. New York villages operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI. However, this cap can be overridden at the local level, without voter approval and many local governments have done so when necessary. Unpredictable expense fluctuations tend to be low, reflected in expense growth being under 5% on average across the whole sector. Fixed and mandated costs are generally below 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be low, however, reflective in expense growth being under 5% on average across the whole sector.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

VILLAGE OF MOUNT KISCO

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,965,804	Aa
Full Value Per Capita	$180,448	Aaa
Median Family Income (% of US Median)	150.4%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	56.5%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	15.0%	Aa
Cash Balance as a % of Revenues	77.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	11.2%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	1.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.0%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.9x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: US Census Bureau, Moody's Investors Service

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