MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Mount Kisco (Village of) NY

Update to credit analysis

Summary

Mount Kisco (Aa2) benefits from a tax base conveniently located in Westchester County (Aa1 negative) near several major metro centers. The village also benefits from strong fiscal management and ample reserves and liquidity. Long-term obligations are above average but manageable.

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 typically does not 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

THIS REPORT WAS REPUBLISHED ON 30/11/2018 WITH AN UPDATE TO THE DEVELOPMENT OF PROPERTY SURROUNDING THE TRAIN STATION IN THE ECONOMY AND TAX BASE SECTION.

Key indicators

Exhibit 1

Mount Kisco (Village of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$1,670,026	$1,631,292	$1,520,195	$1,744,518	$1,763,161
Population	10,936	11,016	11,060	11,062	11,062
Full Value Per Capita	$152,709	$148,084	$137,450	$157,704	$159,389
Median Family Income (% of US Median)	122.9%	129.7%	126.1%	125.2%	125.2%
Finances					
Operating Revenue ($000)	$20,539	$21,175	$21,364	$21,640	$23,776
Fund Balance ($000)	$8,951	$9,346	$9,668	$9,908	$10,793
Cash Balance ($000)	$15,895	$14,864	$15,933	$14,821	$15,370
Fund Balance as a % of Revenues	43.6%	44.1%	45.3%	45.8%	45.4%
Cash Balance as a % of Revenues	77.4%	70.2%	74.6%	68.5%	64.6%
Debt/Pensions					
Net Direct Debt ($000)	$25,660	$23,180	$20,605	$17,080	$14,805
3-Year Average of Moody's ANPL ($000)	$19,730	$22,414	$29,683	$30,833	$31,679
Net Direct Debt / Full Value (%)	1.5%	1.4%	1.4%	1.0%	0.8%
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	0.8x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.4%	2.0%	1.8%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.0x	1.1x	1.4x	1.4x	1.3x

Debt burden increases to 1.9% of full value following a bond sale in December 2018
Sources: Audited financial statements; Moody's Investors Service

Profile

The village, located in northern Westchester County approximately 25 miles north of New York City (Aa2 stable), encompasses an area of approximately 3.0 square miles and has a population of 11,062 according to the 2016 U.S. Census. 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 it's relatively built out nature. The full value remains 4.5% below it's peak in 2009 but has been relatively stable for the past five years with a compounded annual growth rate of 1.6%. Future growth will be driven by redevelopment around the village train station, which has easy access to New York City. Management notes that the Village is currently reviewing proposals to redevelop its two major parking lots adjacent to the Metro-North train station in the heart of downtown Mount Kisco with a transit oriented development containing a mix of residential and commercial space. The project will likely have a payment-in-lieu-of-tax (PILOT) agreement where the village won't receive full property tax revenue from the complex for at least a few years after completion. However, the village will benefit from increased sales tax revenues and the potential to bring more business to the downtown area. An additional project on the opposite of the railroad is currently under consideration and would likely be more high density housing. Additionally, management notes that a couple of vacant big box stores will likely have new tenants over the next few years.

The socio-economic factors for the village are slightly above average nationally but slightly below average when compared to the high cost nature of the New York metro region.

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

Reserves will likely remain strong for the near-to-medium term given conservative budget management. The Available Operating Fund balance (General Fund and Debt Service Fund) has remained stable over the past five years averaging approximately 45% of revenues annually. Absent the use of surplus funds for pay-as-you-go capital expenses, the village ran surplus operations in each of the previous five years. Management notes that 2018 ended similar $385,000 surplus after a transfer of over $2 million to the Capital Projects Fund.

The 2019 budget represents a 1.8% increase over 2018, budget-to-budget, and includes an appropriation of $714,502, consistent with previous years. Approximately half way through the fiscal year management notes that revenues and expenses are tracking well to budget and anticipates adding to fund balance at the end of the year.

LIQUIDITY

Liquidity, like fund balance, will continue to remain ample given conservative management.

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

The debt burden (1.9% post December 2018 sale) is likely to remain above average for the near-term given anticipated borrowings over the next two to three years. As noted above, management actively manages it's capital expenses and will reduce the amount needed to borrow through it's normal operations. Management expects to need an additional $12.5 million in bonds in March 2019 with additional capital needs for the General Fund amounting to approximately $7 million over the next three years. The Water Fund is also going to require a debt issuance of approximately $20 million over the next three years. The Water Fund operated at a coverage ratio of approximately 1.0 times in 2017 and does not require any transfers from the General Fund. If the $20 million is issued the village would likely lean on it's ample cash position in the Water Fund until the existing debt fully matures.

DEBT STRUCTURE

All debt is fixed rate and amortizes over a twenty year period, consistent with the life of the assets being financed.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Management actively manages it's pension and OPEB expenses and makes full payments on time. The village participates in the New York State and Local Employees Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), both of which are multi-employer, defined benefit retirement plan sponsored by the State of New York (Aa1 stable). Additionally, the village contributes to the Mount Kisco Village Ambulance Service Awards Program and the Mount Kisco Village Fire Service Awards Program, both of which are single-employer plans run by the village. The village made 100% of its 2017 annual required contribution (ARC) to the plans, a total of $1 million or 4.4% of operating revenues. The village's combined three year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data was $31.7 million or a moderate 1.33 times operating revenues. Management notes that all police officers resigned from the village and were sworn in by the county so the village no longer has an obligation to make payments to PFRS.

Negatively, New York State law does not allow for local governments to fund a trust for OPEB. While legislation to allow local governments to fund a trust is currently under discussion, the village continues to make their pay-as-you-go annual OPEB payment, which in 2017 was $1 million (4.5% of revenues). Absent legislation, or changes to benefits, the village's liability ($28.8 million at end of fiscal 2017) will continue to grow placing pressure on future budgets.

Total fixed costs comprised of pensions, OPEB and debt service was a manageable 13.6% of operating expenditures.

Management and Governance:

Financial management is strong as evidenced by consistently sound reserves and a formal policy to maintain reserves above 25%. Management notes that it has not been the victim of cyber-crime and outsources it's IT services to a highly regarded data management firm.

New York Cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before adjusting for exemptions and rollovers). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

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