

# RatingsDirect®

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## Summary:

# Bedford Town, New York; General Obligation

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### Credit Profile

US\$8.321 mil pub imp serial bnds ser 2019A due 04/01/2039

*Long Term Rating* AAA/Stable New

Bedford Twn GO

*Long Term Rating* AAA/Stable Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Bedford Town, N.Y.'s public improvement serial bonds series 2019A and affirmed its 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

Bedford's faith-and-credit pledge secures the bonds. Bond proceeds will be used to fund various capital improvements.

Bedford's GO bonds are eligible to be rated above the sovereign, under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), because we believe the town can maintain better credit characteristics than the U.S. in a stress scenario. Under the criteria, the town has a predominately locally derived revenue source, accounting for nearly two-thirds of general fund revenues.

The rating reflects our opinion of the following factors for the town:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and an operating surplus at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 38% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.5x total governmental fund expenditures and 11.8x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 12.8% of expenditures and net direct debt that is 115.3% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 67.0% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### Very strong economy

We consider Bedford's economy very strong. The town, with an estimated population of 17,792, is located in Westchester 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 210% of the national level and per capita market value of \$304,140. Overall, the town's market value fell by 4.8% in 2017 to \$5.4 billion in 2018. The county unemployment rate was 4.6% in 2017.

Bedford is in the northern portion of Westchester County, about 35 miles north of New York City, and encompasses the hamlets of Bedford Village, Bedford Hills, and Katonah. The town is primarily residential and encompasses a land area of approximately 40 miles. Residential development primarily consists of single-family homes, although there are some townhouses, apartment complexes, and several large estates.

We understand Bedford brought a referendum to voters in March 2017 to develop a sewer district in the area of the hamlets of Bedford Hills and Katonah. The town expects that this could have a significantly positive impact on businesses within Bedford. In addition, we understand the town's financial responsibility relating to the sewer district is minimal, with funding coming primarily from the New York State Environmental Facilities, New York City Department of Environmental Protection, New York Department of Corrections, and Westchester County.

### **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.

Highlights include:

- Looking back three years and considering future trends when budgeting;
- Monthly budget-to-actual updates are given to the town board, with amendments done as needed;
- Historical maintenance of a five-year long-term financial plan, formally updated annually; however, we note that in the past year the town has been in the process of updating its financial system and is delayed in updating its long-term projections;
- A nine-year long-term capital plan, formally updated every other year;
- A formal investment policy that follows the state's guidelines; and
- A formal fund balance target of maintaining, at all times, an unassigned fund balance of no less than 15% in its general and highway fund. This formal policy was implemented in fiscal 2016.

### **Strong budgetary performance**

Bedford's budgetary performance is strong in our opinion. The town had slight surplus operating results in the general fund of 1.3% of expenditures, and surplus results across all governmental funds of 4.8% in fiscal 2017.

For analytical consistency, we have accounted for recurring transfers in and out of the general fund as well as for capital expenditures funded with bond proceeds.

The town ended fiscal 2017 with a \$358,000 increase to total general fund reserves, due primarily to conservative budgeting and manageable costs associated with winter expenses.

Officials report that they expect to end fiscal 2018 with a similar surplus, increasing general fund reserves by about

\$225,000 and highway fund reserves by about \$50,000. Major drivers of the continued strong operating results include sales tax revenues, fines and safety inspections coming in over budget. In addition, management noted that health care expenditures came in under budget.

In addition, management indicates there were no material changes to the budget for fiscal 2019 and that it expects to end the year with close to breakeven operations. Management also notes that current budget-to-actuals are performing on target to date.

The town's primary revenue source comes from property taxes, which account for about 60% of general fund revenue.

### **Very strong budgetary flexibility**

Bedford's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 38% of operating expenditures, or \$8.0 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.

The town ended fiscal 2017 with available reserves at its highest in the past decade. Management expects a slight general fund surplus in fiscal 2018 and to add to the unassigned fund balance, in addition to breakeven operations for fiscal 2019. Therefore, we believe budgetary flexibility will likely remain very strong over the next couple of fiscal years. Bedford has remained within the state's tax levy cap, and it has historically left room below the cap; management plans to continue to leave room below the cap over the next few fiscal years.

Bedford implemented a formal fund balance policy in fiscal 2016, where it will strive to maintain an unassigned fund balance of no less than 15% at all times in its general and highway fund. It has exceeded this over the past several years and we expect this to continue.

### **Very strong liquidity**

In our opinion, Bedford's liquidity is very strong, with total government available cash at 1.5x total governmental fund expenditures and 11.8x governmental debt service in 2017. In our view, the town has strong access to external liquidity if necessary.

Bedford has historically issued GO bonds, which we believe is evidence of its strong access to external liquidity. The town has no direct purchase or variable-rate debt, or other contingent liabilities that might put pressure on available cash. The town has consistently had very strong liquidity and we do not expect this to change.

### **Adequate debt and contingent liability profile**

In our view, Bedford's debt and contingent liability profile is adequate. Total governmental fund debt service is 12.8% of total governmental fund expenditures, and net direct debt is 115.3% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, and approximately 67.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following this issuance, we understand Bedford could issue an estimated \$16 million of additional debt for various capital purposes over the next few years. Nevertheless, after accounting for the possibility of this additional debt, we do not anticipate the town's debt and contingent liability profile to materially change.

In our opinion, a credit weakness is Bedford's large pension and OPEB obligation. The town's combined required

pension and actual OPEB contributions were 11.1% of total governmental fund expenditures in 2017. Of that amount, 6.7% represented required contributions to pension obligations, and 4.5% represented OPEB payments. The town made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 93.5%.

Bedford participates in the New York State Employees' Retirement System (NYSERS) and the New York State Police & Fire System (PFRS), which are part of the New York State and local retirement system. The fiduciary net positions, as a percent of total pension liability, were 98.2% for NYSERS and 96.9% for PFRS at March 31, 2018. The town had not recorded or reported its pension liability in accordance with Governmental Accounting Standards Board Statement No. 68 as of fiscal year-end 2017. Although the net pension liability is unknown, management reports that it has never amortized or deferred its pension payments.

The town also provides certain health care benefits for retired employees; its OPEB liability stood at \$61.3 million as of fiscal 2017, and it contributed 32% of its annual OPEB cost.

### **Strong institutional framework**

The institutional framework score for New York towns is strong.

## **Outlook**

The stable outlook reflects our opinion of Bedford's very strong economy and liquidity. We believe Bedford's access to the New York City-Newark-Jersey City MSA provides further rating stability. In addition, we believe management will continue to make budget adjustments as necessary to maintain balanced financial operations with strong-to-very strong reserves. As a result, we do not expect to change the rating within the two-year outlook horizon.

Nevertheless, if the town's budgetary performance were to materially weaken, resulting in a significant deterioration in budgetary flexibility or liquidity, we could lower the rating.

## **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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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