

# RatingsDirect®

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## Summary:

# Vestal, New York; General Obligation

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## Summary:

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### Credit Profile

US\$2.725 mil Public imp rfdg serial bnds

*Long Term Rating*

AA-/Stable

New

Vestal pub imp (serial) bnds

*Long Term Rating*

AA-/Stable

Affirmed

#### **Vestal GO**

*Unenhanced Rating*

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Vestal, N.Y.'s series 2013 general obligation (GO) public improvement refunding serial bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating on the town's existing general obligation debt. The outlook is stable.

The rating reflects our opinion of the town's:

- Strong income levels;
- Strong wealth levels;
- Strong, albeit declining, reserves; and
- Very diverse tax base.

However, we believe the town's moderate debt profile somewhat limits these strengths.

Officials intend to use the bond proceeds to refund part of the outstanding principal from the town's series 2006 bonds and pay issuance costs. The town expects to save approximately \$165,000 from this refunding and apply the savings over time. We have learned the new issuance will not extend the town's existing debt maturity.

The town has irrevocably pledged its full-faith-and-credit to secure principal and interest payments on the bonds. Unless other sources contribute, the bonds are funded via ad valorem taxes on all taxable property in the town.

The town encompasses 52.5 square miles in Broome County, located in upstate New York. It lies along the Susquehanna River, six miles west of Binghamton, N.Y. and 10 miles north of the Pennsylvania border. Vestal's population totaled 28,043 in the most recent U.S. census (2010), a 5.7% increase from the 2000 census.

The town's income is, in our opinion, a strong 113% of the national level. Vestal's average income has been relatively stable over the past five years. Residents have good employment opportunities, primarily in Binghamton. Leading local employers include:

- Binghamton University (approximately 5,500 employees),

- United Health Services (5,400),
- Lockheed Martin (2,700), and
- The Broome County government (2,500).

Broome County's non-seasonally adjusted unemployment rate has trended with and generally exceeded that of the state. According to the New York State Department of Labor, unemployment was 8.8% and 8.2% for the county and state, respectively, as of December 2012.

Market value declined by 1.8% to \$1.831 billion for fiscal 2013. This translates to slightly over \$65,000 per capita, a figure we consider strong. Fiscal 2012 market value totaled \$1.865 billion, an all-time high for the town. The 10 leading taxpayers are very diverse, in our opinion; they accounted for 11% of all fiscal 2013 assessed value.

In June 2011, New York State enacted legislation limiting annual property tax levy growth for all local governments and school towns (except New York City), to the lesser of 2% or the inflation rate, although subject to certain exceptions and overrides. Pursuant to this legislation, school towns receive an exemption for capital-related debt. All other property tax levies to pay debt service, including existing and future GO bonds, must fall under the cap. All town-issued GO bonds remain backed by the town's full faith and credit pledge. We include Vestal's willingness and ability to incorporate these budgetary mandates into our ratings analysis. (For more information, see the article, titled "S&P Assesses The Implications Of New York State's Property Tax Cap Legislation," published July 12, 2011, on RatingsDirect on the Global Credit Portal.)

The town began to draw on its accumulated reserves starting in fiscal 2007. The fund equity was \$5.3 million in 2007 before dropping to \$3.9 million as of the most recent audit (Dec. 31, 2011). Additionally, unappropriated reserves were \$885,000 (or 10.3% of fiscal 2011 expenses) as of the most recent audit, a ratio we consider strong. Although the fiscal 2012 audit is not yet complete, management expects operating revenues to exceed operating expenses by \$1.45 million, and reserves to remain above 10% after transfers. The fiscal 2013 budget calls for revenues to exceed expenses by \$1.74 million. After factoring transfers, the fiscal 2013 budget indicates an approximate \$23,000 reduction in reserves. Although the fiscal year is only just beginning, management projects they will meet their budget. If the town fulfills its budget expectations, we believe reserves will be at or near 10% at fiscal year-end.

Standard & Poor's views the town's financial management practices as "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Inclusive of this debt, the town has gross direct debt and overlapping debt of \$18.4 million and \$42.7 million, respectively. Overall net debt is slightly under \$2,200 per capita including overlapping debt, which we consider moderate. Debt-to-market-value is 3.3%, which we also consider moderate. Carrying charges are, in our view, a low 6%. Amortization is rapid, in our view, with 90% of debt scheduled to roll off in 10 years and the remainder in 18 years.

The town offers two state-administered pension systems: the Police and Fire Retirement System (PFRS) and the Employees Retirement System (ERS). As of the most recent audit, the \$1.23 million pension expense comprised 4.6% of total government fund expenditures. The town expects pension expenses to increase to \$1.62 million for 2013. Moreover, state legislation in 2009 and 2012 created new tiers within the benefit structure. Each new tier modifies

rules concerning items such as retirement age, plan contributions, and vesting. We believe these changes will reduce the town's financial obligation, but we cannot yet quantify this with certainty. Based on the most recent actuarial study (December 2008), the annual required contribution and total liability for Other Post-Employment Benefits (OPEB) was \$3.94 million and \$46.06 million, respectively. Following this study, the town revised its OPEB structure by increasing or instituting health insurance contributions for non-union and elected officials hired after Jan. 1, 2007, and various union employees pursuant to negotiated contracts.

## **Outlook**

The stable outlook reflects Standard & Poor's view that the town has several strong factors not limited to reserves, income and wealth levels. We believe economic conditions are likely to provide stability to income, wealth and employment. However, given the downward trend in reserves, we do not expect to raise the rating during the two-year outlook period. However, we believe the reserve decline has stopped, based on preliminary fiscal 2012 results and 2013 budget projections. Barring any precipitous drop in reserves, we do not expect downward pressure on the rating during the two-year outlook period.

## **Related Criteria And Research**

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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