

CREDIT OPINION

16 March 2017

New Issue

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North Hempstead (Town of) NY

New Issue - Moody's Upgrades North Hempstead NY's GOs to Aaa; Outlook is Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the Town of North Hempstead, New York's \$60.7 million Public Improvement Serial Bonds, 2017 Series A and B. Concurrently, Moody's has upgraded to Aaa from Aa1 the town's outstanding general obligation limited tax (GOLT) debt. The outlook has been revised to stable from positive.

The rating reflects the town's conservative budgeting which supports balanced financial operations and maintenance of solid financial reserves. The rating also factors the town's enhanced long-term financial planning and internal controls, large and affluent tax base, and low debt burden.

Credit Strengths

- » Strong financial management marked by conservative budgeting and planning
- » Large and diverse tax base with high income levels and ample local employment opportunities
- » History of balanced operations resulting in stable financial reserves

Credit Challenges

- » Some reliance on economically sensitive sales tax and mortgage tax revenues

Rating Outlook

The stable outlook reflects the town's conservative fiscal management practices, which will support healthy operating performance and maintenance of a strong financial position, as well as full payment of pensions going forward. The outlook also reflects the town's large tax base and strong resident wealth and income levels.

Factors that Could Lead to a Downgrade

- » Erosion of operating reserves and liquidity
- » Large declines in tax base

Key Indicators

Exhibit 1

North Hempstead (Town of) NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 55,032,310	\$ 53,932,093	\$ 51,086,733	\$ 49,761,409	\$ 49,920,878
Full Value Per Capita	\$ 244,954	\$ 238,668	\$ 225,023	\$ 218,018	\$ 217,895
Median Family Income (% of USMedian)	189.0%	188.9%	190.6%	192.8%	185.0%
Finances					
Operating Revenue (\$000)	\$ 99,436	\$ 111,081	\$ 117,768	\$ 107,766	\$ 110,556
Fund Balance as a % of Revenues	16.0%	16.3%	17.9%	20.6%	19.6%
Cash Balance as a % of Revenues	14.1%	14.9%	20.8%	17.1%	23.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 222,853	\$ 217,656	\$ 207,396	\$ 348,018	\$ 338,494
Net Direct Debt / Operating Revenues (x)	2.2x	2.0x	1.8x	3.2x	3.1x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.7%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	1.2x	1.6x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.1%	0.3%	0.3%	0.3%

2016 Full Value: \$54.5 billion

2017 Full Value: \$51.7 billion

Source: Town CAFRs; Moody's Investors Service

Recent Developments

Audited financial statements are not yet available for fiscal 2016. The town reports that it is expecting a surplus resulting largely from higher-than-expected mortgage tax revenues. It expects to add to reserves modestly and maintain them around current levels going forward.

Detailed Rating Considerations

Economy and Tax Base: Large and Diverse Tax Base Expected to Remain Stable

The town's \$51.7 billion tax base is well above the medians for the state and nation and is a significant credit strength. Full value dropped in fiscal 2017, which the town reports was almost entirely due to the removal of Long Island Power Authority (LIPA, A3 stable) from the tax rolls; LIPA will continue to make PILOT payments going forward, but its properties will not be included in the tax base. Full value grew 9% in 2016, and management expects it to be stable going forward. The tax base is diverse, with the top ten taxpayers making up just 6.3% of assessed value, and dominated by utility providers and commercial and residential real estate developments. A variety of development projects are underway across the town's base, including residential and commercial construction in Port Washington, New Hyde Park, Carle Place, Greenvale, Manhasset, and Searingtown. The town is well-located adjacent to New York City (Aa2 stable), providing strong employment opportunities to residents.

The town's median family income is significantly above-average at \$104,698, or 185% of the nation. The largest employer is Northwell Health, NY (A3 Stable), and four of the other top 10 employers are hospitals or involved in health care. Unemployment is low at 3.4% as of December 2016, compared to 4.5% for both the state and nation. Wealth levels are very high, with full value per capita of \$217,895.

Financial Operations and Reserves: Reserves Will Remain Strong

North Hempstead ended fiscal 2015 with available reserves in its operating funds (General, Debt Service, Highway, Part Town, Refuse and Garbage District) of \$21.7 million, or 19.6% of operating revenues, down slightly from \$22.2 million, or 20.6% of operating revenues, in fiscal 2014. The decline resulted largely from the redesignation of a portion of reserves as nonspendable, as they are tied to a receivable from the county that the town no longer anticipates receiving in the near-term. Total fund balance rose to \$27.0 million,

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or 24.4% of operating revenues, in 2015 from \$26.2 million, or 24.3%, in 2014. Management's conservative budgeting and strong financial management practices have resulted in stable fund balance levels. Management reports that 2016 ended with a small surplus, tied largely to higher-than-expected mortgage tax revenue, and they expect reserves to remain stable. In recent years, management has kept the property tax increase within the New York State (Aa1 stable) cap, a constraint within which they expect to operate going forward.

Notably, the town manages and is responsible for providing financial assistance to the Solid Waste Management Authority (SWMA). Favorably, this amount has recently been decreasing annually, dropping from \$900,000 in 2014 to \$750,000 in 2016 and is budgeted to remain flat in fiscal 2017. Management expects to continue to support SWMA's operations at similar levels for the foreseeable future. SWMA's financial operations have improved in the past few years, and total fund balance went from negative \$293,092 in fiscal 2010 to positive \$2.8 million in fiscal 2015.

In fiscal 2014, the town experienced a General Fund deficit due to the write-off associated with the tuition charge-back from Nassau County (A2 stable) for community college students attending the Fashion Institute of Technology (FIT). The county withheld sales tax revenue from the town and other affected municipalities to reimburse itself for costs associated with educating residents. A 2014 Court of Appeals decision allowed the county to continue to withhold the funds, which totaled \$4.3 million, from the town. Going forward, the town is budgeting for this cost on an annual basis. On March 1, 2016, the county informed the town that it would be deducting \$1.27 million from its 2015 fourth quarter sales tax payment of \$2.8 million, tied to payments the county made for town residents in fiscal 2004 and 2005. The town is currently challenging this withholding in court.

LIQUIDITY

As of fiscal 2015, the town had \$26.2 million of cash and investments, or a solid 23.7% of operating revenues, up from \$18.4 million, or 17.1% of revenues, in fiscal 2014. Management expects cash levels will remain stable in fiscal 2016.

Debt and Pensions: Debt to Remain Low; Pension Amortization Discontinued

Post-sale, the town will have approximately \$336 million of debt outstanding, or a low 0.7% of full value. The town's debt burden will remain relatively stable, given average amortization and a conservative debt management plan. The town has been actively working to lower its total debt burden in recent years and expects it to increase modestly going forward.

DEBT STRUCTURE

All of the town's debt is fixed rate. Amortization is average with 58% of outstanding debt to be paid down over the next 10 years. Long term GOLT bonds total \$325 million. The town also has approximately \$11 million of outstanding BANs.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The town participates in a state-run cost-sharing plan, the New York State and Local Employees' Retirement System. The town's three year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is a manageable .34% of Full Value or 1.5 times Operating Fund revenues. This does not factor in the recent amortization of annual contributions. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plan in proportion to its contribution to the plan and the town's amortizations are not factored in. The town amortized its pensions annually from 2010 to 2016, a practice it reduced annually and eliminated entirely in fiscal 2017. Pension amortization for fiscal 2015 and 2016 was \$990,946 and \$202,265, respectively. The town plans to continue to pay its full pension payment annually going forward.

The town currently pays its OPEB liability on a pay-as-you-go basis. The town's contribution in fiscal 2015 was a manageable \$3.5 million, or 2.8% of operating revenues. Total fixed costs for fiscal 2015, including debt service across funds, required pension contributions and retiree healthcare costs, represented 17% of operating revenues.

Management and Governance: Conservative Budgeting and Active Financial Management a Strength

Town management is strong, with balanced budgets that no longer include pension amortization, a lack of one-shot revenue sources, conservative budgeting practices, and a debt management plan. Management actively monitors budget performance across funds throughout the year to ensure balanced operations and makes changes to expenditures as needed. The town has a 10% general fund balance policy, though in practice it maintains higher reserve levels.

New York cities, towns and villages have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Towns 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. 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.

Legal Security

The GOLT bonds are secured by the town'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

Proceeds from this issuance will be used for various capital improvements throughout the town, including improvements for water districts, various park and recreation facilities, and road repairs and maintenance. The town is also issuing \$7.3 million of BANs, which we do not rate, for various capital purposes.

Obligor Profile

The Town of North Hempstead is adjacent to the northeastern boundary of New York City. It includes 31 incorporated villages and unincorporated communities with a total population as of 2015 of 228,245 (American Community Survey).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 2

North Hempstead (Town of) NY

Issue	Rating
Public Improvement Serial Bonds, 2017 Series A	Aaa
Rating Type	Underlying LT
Sale Amount	\$49,774,425
Expected Sale Date	03/23/2017
Rating Description	General Obligation Limited Tax
Public Improvement Serial Bonds, 2017 Series B	Aaa
Rating Type	Underlying LT
Sale Amount	\$10,970,000
Expected Sale Date	03/23/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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