S&P Global
Ratings

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Summary:

Tuxedo Park Village, New York; General Obligation

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Long Term Rating	AA/Stable	Upgraded

Rating Action

S&P Global Ratings raised its long-term rating on Tuxedo Park Village, N.Y.'s general obligation (GO) debt to 'AA' from 'AA-'. The outlook is stable.

The village's faith and credit GO pledge secures its GO bonds outstanding, including the statutory authorization to levy ad valorem taxes on all real property in the village. This is subject to the provisions of the 2011 tax levy limitation law, which imposes additional procedural requirements on municipalities' ability to increase the real property tax levy annually.

Credit overview

The upgrade reflects the ongoing strengthening of the village's reserve position as a result of positive financial results since fiscal 2016. The credit profile benefits from Tuxedo Park's very strong wealth and income metrics and resilient property tax base, which also funds the vast majority of general fund revenue. Following the use of fund balance for operations over 2013-2015, management implemented a number of cost-saving measures, especially on public safety, and now typically achieves positive variances against budget on the expense side. We expect the recent improvement in the reserve position could be further safeguarded, if the village adopts a formal reserve policy, as is currently discussed. In general, the rating remains somewhat constrained by the village's lack of formalized financial policies and plans, as well as a slightly higher debt burden and pension and other postemployment benefits (OPEB) carrying charges.

The rating further reflects our view of the village's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.4% of total governmental fund expenditures and 4.0x governmental debt service, and access to external liquidity we consider strong;

- Weak debt and contingent liability profile, with debt service carrying charges at 13.3% of expenditures and net direct debt that is 113.5% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We analyzed Tuxedo Park Village's ESG risks relative to the village's economy, management, financial measures, and debt and liability profile, and determined that they are in line with our view of the sector standard. However, we view the state's governance regarding the lack of a mechanism to prefund OPEB as a weakness for New York local governments.

Stable Outlook

Downside scenario

We could lower the rating should the village significantly draw on reserves for operations or capital projects, leading to renewed pressures on the reserve position.

Upside scenario

We could raise the rating if Tuxedo Park implemented more formalized financial management policies and practices, including a reserve policy that would ensure that its reserves remain at a level we consider very strong, while its debt and pension liability profile improved.

Credit Opinion

Very strong economy

We consider Tuxedo Park's economy very strong. The village, with an estimated population of 616, is in Orange County in the New York-Newark-Jersey City, NY-NJ-PA MSA, which we consider broad and diverse. The village has projected per capita effective buying income of 186% of the national level and per capita market value of $782,836. Overall, market value was stable over the past year at $482.2 million in 2021. The county unemployment rate was 8.4% in 2020.

Tuxedo Park is a gated community and residential village about 40 miles outside of Manhattan, and a bus line provides access to the Manhattan Port Authority. The village's population increases in the summer from vacationers. Zoning bylaws do not allow for commercial or industrial uses and the village is listed on the National Register of Historic Places. Only about 40 buildable lots remain, and village officials report very low inventory amid strong demand during the COVID-19 pandemic. In addition, redevelopment and expansion of existing properties continue to support tax base growth. Lastly, eight new lots in a new subdivision could be developed, if finalized.

Assessed values have largely remained unchanged in the past three fiscal years.

Adequate management

We view the village's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The management team prepares budget revenue and expense assumptions that are closely based on the most recent year's performance and are vetted by the board of trustees before approval. The board is also provided with monthly budget to actuals and has the ability to adjust the budget midyear. The monthly treasurer's report includes information on funds held in the village's bank accounts. Tuxedo Park does not have a formal long-term financial plan or debt management policy. It does, however, maintain a capital plan that identifies capital projects and most of their funding sources, although it does not include a forward-looking annual breakdown of these projects' implementation. Although the village does not have a formal reserve policy, it plans to pass a resolution with the goal of establishing guidelines for the opening and maintenance of reserve funds.

Strong budgetary performance

Tuxedo Park's budgetary performance is strong in our opinion. The village had surplus operating results in the general fund of 2.1% of expenditures, and balanced results across all governmental funds 0.3% in fiscal 2020.

Since fiscal 2016, the village has posted surplus results thanks to conservative budgeting practices. The majority of its general fund revenue, 92% in fiscal 2020, is derived from economically less-sensitive property taxes. On the expenditure side, the highest spending is on public safety, accounting for about a quarter of expenditures, as the village has its own public safety staff. Given Tuxedo Park's relatively limited operations and strong and stable property tax base, there was no financial impact from the pandemic in fiscal 2020. Although the village receives sales tax revenue shared by Orange County, as well as mortgage taxes, which are more economically sensitive, together, both taxes account for only about 0.6% of revenue.

For fiscal 2021, village officials expect another surplus result, given the limited impact from the pandemic. Tuxedo Park had appropriated surplus in fiscal 2021 but because of its overperformance on the expenditure side, historically the main area of positive variance against the budget, does not anticipate using it but will instead add to reserves. Officials anticipate receiving approximately $65,000 in American Rescue Plan funding but have not yet identified plans for use. That said, the village has potential sewer capital plans that it could apply this money to, if permissible.

We note the village may use some fund balance for capital projects, although we expect the budget will remain structurally balanced.

Very strong budgetary flexibility

Tuxedo Park's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 25% of operating expenditures, or $1.0 million.

Historically, the village had appropriated fund balance to pay for operations between fiscal years 2013 and 2015. Since then, reserves have steadily increased despite the board of trustees' conscious effort not to pierce the state's tax cap. Officials are considering implementing a formal reserve policy. We will monitor reserve levels against the potential future reserve policy, especially given management's plans to use reserves for capital projects. That said, we expect reserve will remain at what we consider very strong levels in the near term, though they could drop, depending on the size of drawdowns for capital projects in the medium term.

Very strong liquidity

In our opinion, Tuxedo Park's liquidity is very strong, with total government available cash at 53.4% of total governmental fund expenditures and 4.0x governmental debt service in 2020. In our view, the village has strong access to external liquidity if necessary.

The village has access to external liquidity, evidenced most recently by its GO issuance over the past 25 years. It holds funds in bank deposits, which we do not consider aggressive. We do not anticipate changing our opinion of its liquidity in the near term.

Weak debt and contingent liability profile

In our view, Tuxedo Park's debt and contingent liability profile is weak. Total governmental fund debt service is 13.3% of total governmental fund expenditures, and net direct debt is 113.5% of total governmental fund revenue. Overall net debt is low at 2.1% of market value, which is in our view a positive credit factor.

Although management has plans for potential water and sewer upgrades, it is not clear yet how much the village would have to borrow for them, given the availability of grant funding and other funding sources, including reserves. Overall, we do not expect our debt assessment will deteriorate over the outlook horizon.

Pension and OPEB liabilities:

- In our view, elevated carrying charges and the size of the OPEB liability are a source of credit pressure for Tuxedo Park, because the latter is large relative to the size of the village's budget. However, the pension plans' strong funded ratios and limited cost escalation trajectory somewhat offset this risk.
- Tuxedo Park's required pension and actual OPEB contributions were 11.8% of total governmental fund expenditures in 2020, with 5.4% representing required contributions to pension obligations and 6.4% representing OPEB payments.
- Tuxedo Park's OPEB liability was equal to $8.7 million as of May 31, 2020, and is funded on a pay-as-you-go basis, which could create budgetary pressure from higher contributions resulting from claims volatility and increasing medical cost trends. New York State prohibits the accumulation of assets against the liability, increasing financial risks because Tuxedo Park cannot plan for higher contributions with amounts set aside in a dedicated fund.

The village participates in the following retirement plans:

- New York State Employees' Retirement System, which is 86.4% funded, with a proportional share of the net pension liability equal to about $530,000
- New York State Police & Fire Retirement System, which is 84.9% funded, with a proportional share of the net pension liability equal to $1.0 million

We view the plans' actuarial assumptions, including an assumed rate of return of 6.8%, as generally reasonable, but the rate could lead to contribution volatility because it exceeds our view of a conservative rate of return of 6%.

Tuxedo Park pays 100% of its actuarially determined contribution, but fiscal 2020 actual contributions did not meet our view of minimum as well as static funding progress for both pension plans. In addition, the plans' aggregate cost method essentially creates an open amortization policy using a level percent pay basis assuming a 3.8% payroll growth rate, which we generally view negatively because the plans will never reach full funding and costs will increase annually. However, the plans' high funded ratios largely mitigate the risks of the village's costs increasing significantly.

Strong institutional framework

The institutional framework score for New York villages is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors