

RatingsDirect®

Summary:

LeRay Town, New York; General Obligation

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Credit Profile

US\$1.5 mil pub imp serial bnds ser 2017 dtd 12/07/2017 due 12/01/2029

<i>Long Term Rating</i>	A/Stable	New
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LeRay Twn GO

<i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'A' long-term rating and stable outlook to LeRay Town, N.Y.'s series 2017 general obligation (GO) bonds and affirmed its 'A' underlying rating (SPUR), with a stable outlook, on the town's existing GO debt.

The town's faith-and-credit pledge secures the bonds.

Officials intend to use series 2017 bond proceeds and \$150,000 of cash to finance bond anticipation notes permanently.

The rating reflects our opinion of the town's:

- Weak economy, with projected per capita effective buying income at 57.1% of the national level and market value per capita of \$22,258, that advantageously gains from a local stabilizing institutional influence;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 75% of operating expenditures;
- Very strong liquidity, with total government available cash at 55.6% of total-governmental-fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 15.8% of expenditures and net direct debt that is 224% of total-governmental-fund revenue; and
- Strong institutional framework score.

Weak economy

We consider LeRay's economy weak. The town, with an estimated population of 23,891, is located in Jefferson County. The town benefits, in our view, from a stabilizing institutional influence. The town has a projected per capita effective buying income of 57.1% of the national level and, what we consider, a low per capita market value of \$22,258 in fiscal 2018, which, in our view, indicates a limited tax base supporting the debt; we consider this a negative credit factor. Overall, market value grew by 1.3% over the past year to \$531.8 million in fiscal 2018. The county

unemployment rate was 6.2% in 2016.

The 74.9-square-mile town is two miles northeast of Watertown. LeRay includes the village of Evan Mills and partially includes the village of Black River, as well as the inhabited portion of Fort Drum. The town includes a mix of suburban residential areas, agriculture, and commercial facilities and contains the majority of off-base housing for Fort Drum military families. The U.S. Army has been expanding the base since 1984 when it announced the stationing of the reactivated 10th Mountain Division at the fort. As the fort has expanded so has housing stock in and around the town, as well as additional ancillary commercial developments, such as an ALDI grocery store and other commercial properties.

The town expects a leading taxpayer to finish its last year of payments in lieu of taxes, so its full valuation of roughly \$32 million will come on the tax roll. However, we still expect market value per capita to remain below \$30,000.

Adequate management

We view the town'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.

Highlights include management's:

- Conservative budgeting, which includes a five-year trend analysis; and
- Monthly reports on budget-to-actual results to the town board.

In addition, LeRay has a defined-investment-management policy with monthly investment and budget reports to the board. The town currently lacks a formal debt-management policy and formal capital improvement plan, and it does not conduct long-term financial forecasting. Management's goal is to maintain reserves at \$1 million because it is roughly six months of operating expenses.

Strong budgetary performance

LeRay's budgetary performance is strong, in our opinion. The town had operating surpluses of 4.8% of expenditures in the general fund and 2.5% of expenditures across all governmental funds in fiscal 2016.

The town has had strong budgetary performances in the general fund because it conservatively budgets expenses and underbudgets revenue. Nonproperty tax items came in at \$100,000 overbudget. In addition, the town actively manages expenses and underspends its budget regularly.

The fiscal 2017 budget of \$1.5 million is a more than \$200,000 increase from the fiscal 2016 budget. The fiscal 2017 budget includes a tax levy in excess of the levy limit due to a sewer capital project. In addition, officials increased the amount of fund balance appropriated in the budget, including a yearly transfer out for a capital project. We expect LeRay to continue this transfer. Currently, the town expects to end fiscal 2017 with higher-than-budgeted results and add to its surplus due to higher-than-budgeted occupancy and sales tax revenue.

The fiscal 2018 budget is a minimal increase from fiscal 2017, totaling roughly \$5,000. The budget calls for slight increases in expenses with minimal increases in revenue. Based on the town's recent positive operating trends, we expect budgetary performance to continue at, what we consider, strong levels.

Very strong budgetary flexibility

LeRay's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 75% of operating expenditures, or \$1 million. We expect 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 has maintained very strong fund balance through conservative budgeting. Management's goal is to maintain at least \$1 million in reserve, which it has complied with during two of the past three fiscal years.

We expect LeRay to add to reserves at fiscal year-end 2017 based on several higher-than-budgeted line items. We note that the town has raised its tax levy above the mandated New York State levy once for a sewer capital project and that it does not currently plan to do so over the next few years.

Very strong liquidity

In our opinion, LeRay's liquidity is very strong, with total government available cash at 55.6% of total-governmental-fund expenditures and 3.5x governmental debt service in fiscal 2016. In our view, the town has strong access to external liquidity if necessary.

LeRay's issuance of GO debt during the past 10 years demonstrates its strong external liquidity. Although the state allows for, what we view as, permissive investments, we believe the town does not currently have aggressive investments because it holds its cash and equivalents with commercial banks insured by Federal Deposit Insurance Corp. or highly rated entities. The town does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

Very weak debt-and-contingent-liability profile

In our view, LeRay's debt-and-contingent-liability profile is very weak. Total-governmental-fund debt service is 15.8% of total-governmental-fund expenditures, and net direct debt is 224% of total-governmental-fund revenue.

Currently, the town does not have any debt plans we consider significant over the next few years.

LeRay's pension contributions totaled 1.9% of total-governmental-fund expenditures in fiscal 2016. The town made its full annual required pension contribution in fiscal 2016.

LeRay participates in the New York State & Local Employees' Retirement System. The town has not amortized any pension costs. In fiscal 2016, the town contributed \$101,959 to the plan. It does not currently offer any postemployment benefits.

Strong institutional framework

The institutional framework score for New York towns is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that LeRay's financial metrics will likely remain the same or improve slightly during the next two fiscal years. We believe very strong budgetary flexibility and liquidity and Fort Drum's presence provide additional outlook stability.

Upside scenario

We could raise the rating if economic metrics were to improve, coupled with improved management policies and practices—similar to higher-rated peers, while maintaining current financial metrics.

Downside scenario

We could lower the rating if budgetary performance were to deteriorate to levels we consider weak, coupled with reserves decreasing to levels we consider adequate.

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
- 2017 Update Of Institutional Framework For U.S. Local Governments

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