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Summary:

Saltaire, New York; General Obligation

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Credit Profile		
US$1.4 mil pub imp bnds ser 2019 due 12/15/2038		
Long Term Rating	AAA/Stable	New
Saltaire Vill GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings has assigned its 'AAA' rating to the Village of Saltaire, N.Y.'s $1.4 million series 2019 general obligation (GO) public improvement bonds. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the village's debt outstanding. The outlook is stable.

A pledge of the village's faith and credit secures the bonds. Officials plan to use the bond proceeds to fund the costs of construction for various capital projects.

We rate the village above the sovereign, because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base, and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating is based on our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013).

Saltaire is a very wealthy enclave on Fire Island in the Atlantic Ocean. The village has a very strong tax base and a history of very strong budgetary flexibility. Throughout the past seven years, since Superstorm Sandy, the village has been able to navigate its way through significant capital projects, state and federal grant reimbursements, all while maintaining at least balanced operations. We expect that management's good financial practices will continue to support the village's very strong flexibility and ensure the village will be able to maintain balanced operations.

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

- 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;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 87% of operating expenditures;
- Very strong liquidity, with total government available cash at 47.8% of total governmental fund expenditures and

2.1x governmental debt service, and access to external liquidity that we consider strong;

- Weak debt and contingent liability profile, with debt service carrying charges at 22.3% of expenditures and net direct debt that is 314.8% of total governmental fund revenue, but rapid amortization, with 66.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Saltaire's economy very strong. The village, with an estimated population of 25, is located in Suffolk County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The village has a projected per capita effective buying income of 272% of the national level, which we view as extremely high and a credit strength and per capita market value of $15.9 million. Overall, the village's market value grew 4.7% over the past year to $397.1 million in fiscal 2019. The county unemployment rate was 4.5% in 2017.

Saltaire is on Fire Island, an outer barrier island parallel to the south shore of Long Island. It serves primarily as a summer destination for wealthy New Yorkers. With a permanent population of about 47 and a peak summer population of more than 2,000, Saltaire consists of approximately 400 medium- to high-income cottages and second homes along the Atlantic Ocean.

The village has largely recovered from damage sustained during Superstorm Sandy in 2012, and should complete the total recovery with Federal Emergency Management Agency (FEMA) funds over the next two years. Although market values dipped following the storm, we see evidence of growth, with a 4.5% increase in the past year alone. Furthermore, property turnover remains low, as homeowners redevelop.

We believe the speed at which Saltaire was able to rebuild and the continued strength of the tax base demonstrates the village's resilience to stress scenarios. Given the very strong wealth and income levels, and a commitment on the part of the tax base to village vibrancy, we do not expect to change our assessment of the Saltaire's economy within our outlook period.

Strong management

We view the village'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.

The village follows conservative budgeting practices grounded in a historical trend analysis that goes back several years. Management reports budget-to-actual variances monthly to village trustees, who can make amendments to the budget as needed. It also reports investment holdings and earnings to trustees quarterly. Management performs multi-year forecasting of revenues and expenditures, which are updated annually. Furthermore, the village has an annually updated, five-year capital improvement plan, which identifies funding sources. Saltaire does not have a debt management policy or a reserve policy, but management has recently changed its goal to target a minimum reserve level of at least 40%, higher than the previous 20% level. This threshold is set higher than state requirements, because Saltaire's unique needs as a coastal village and the potential for large-scale damage. The village also has an investment policy that aligns with state policy and which it reviews annually.

Adequate budgetary performance

Saltaire's budgetary performance is adequate, in our opinion. The village had negative operating results in the general fund and negative results in governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect future budgetary results could improve from fiscal 2018 results in the near term.

In our analysis of budgetary performance, we adjust for one-time capital expenditures related to the recovery efforts. Through management's practice of long-term financial planning, the village identified the increase in debt service costs in fiscal 2018, which is the main driver of the negative result. Saltaire actively manages revenues and expenses. As a result, the village anticipates having only two years of drawdowns in fiscal years 2018 and 2019. In addition to the increase in debt service costs, the village did see an unexpected increase in contractual expenses. On the revenue side, the village received 105% of its budgeted revenues as several line items outperformed budgeted levels. Property taxes are the village's leading revenue source, accounting for 64% of general fund revenues, and collections have historically averaged 99% on a current basis. The village's revenue base is diverse, in our view, and it does not receive federal revenue outside of the one-time disaster relief assistance.

The 2019 budget totals $3.59 million, which is about 3% higher than the previous year. Included in the budget is the last debt service payment for a bond issue that matures in 2019. Management reports that budget-to-actual results are on target. However, the village will making a onetime $1.6 million capital draw down in fund balance in conjunction with this issuance. The majority of this revenue is from a 2017 land sale. Before adjustments for this one-time draw we expect the village to report another negative operating result in fiscal 2019. However, we anticipate the village's fiscal 2020 results will be stronger than those of the previous two years, as management expects debt services costs to decline significantly. In addition, the village expects tax base growth, with resulting increases in property tax revenue. Given the village's history of operating surpluses and conservative budgeting, we expect our assessment of general fund and total governmental fund performance to remain adequate to strong over the outlook period.

Very strong budgetary flexibility

Saltaire's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 87% of operating expenditures, or $3.2 million.

The village previously maintained an informal policy to keep its reserves at $1 million, or a minimum 20% of budgeted expenditures. Recently, management and the board increased this figure to about $1.6 million in reserves, or 40% of expenditures. Continuing management's goal to maintain very strong levels of fund balance because of Saltaire's unique geographic location and its vulnerability to storms. As a part of this new issuance, the village is anticipating drawing down $1.6 million in fund balance to pay for capital projects. Even with the expected draw on fund balance, we believe the village will maintain a very strong level of reserves.

Very strong liquidity

In our opinion, Saltaire's liquidity is very strong, with total government available cash at 47.8% of total governmental fund expenditures and 2.1x governmental debt service in fiscal 2018. In our view, the village has strong access to external liquidity if necessary.

The village has demonstrated strong market access by issuing GO bonds within the past several years. With no plans to issue additional debt, we believe the village's liquidity will remain very strong. Furthermore, Saltaire does not have any contingent liquidity risk from financial instruments with payment provisions that change on the occurrence of certain events. In addition, management is not aggressive in its use of investments.

Weak debt and contingent liability profile

In our view, Saltaire's debt and contingent liability profile is weak. Total governmental fund debt service is 22.3% of total governmental fund expenditures, and net direct debt is 314.8% of total governmental fund revenue. Approximately 65.5% of the direct debt is scheduled to be repaid within 10 years, which is in our view a credit strength.

After this issue and taking into account already made 2019 debt service payments, Saltaire will have $11.39 million in debt outstanding, inclusive of the $3.1 million of the new bond anticipation notes (BANs) included in the issue. The new BANs will be redeemed with FEMA funds. The village has other projects in its five-year capital project plan, including the renovation of the village hall, lighthouse work, and the purchase of an additional water tank, but they do not plan on issuing any additional debt to fund those projects, and will only implement them if grant sources of funding become available. We do not expect these other projects, if or when implemented, to have a material effect on our evaluation of Saltaire's debt profile. However, as the Saltaire's tax base grows, we believe its debt profile will improve, as the village's overall net debt position will fall below our 3% threshold, for a positive adjustment.

Saltaire's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2018. Of that amount, 3.1% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The village made its full annual required pension contribution in 2018.

The village participates in the New York State Employees' Retirement System for employees' pensions, which is 98.4% funded. Saltaire also provides OPEB in the form of health insurance, and contributed $52,211 in fiscal 2018 on a pay-as-you-go basis. As of its June 1, 2015, valuation, the OPEB plan had an unfunded liability of $2.08 million.

Strong institutional framework

The institutional framework score for New York villages is strong.

Outlook

The stable outlook reflects our expectation that Saltaire will continue to adjust its budget to maintain structural balance while preserving its very strong reserves. The underlying wealth and income and a demonstrated commitment to village vibrancy adds stability to the rating. Given Saltaire's strong management conditions and history of maintaining stable operations, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

However, if performance were to deteriorate significantly along with reserves, outside of what management anticipates for fiscal 2019, we could lower the rating.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments