

CREDIT OPINION

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New Windsor (Town of) NY

Update to credit analysis

Summary

The [Town of New Windsor, NY's](#) (Aa3) credit profile benefits from its moderately-sized, growing tax base located in [Orange County](#) (Aa2 stable) with above average resident wealth and income. The town's financial position remains strong and management anticipates running an operating surplus for fiscal 2022. This helps to offset its elevated long-term liabilities, mainly driven by a high OPEB liability. The debt burden will remain manageable despite the expected increase over the next 3 years.

Credit strengths

- » Strong financial position
- » Growing tax base with above average wealth and resident income levels

Credit challenges

- » Elevated long-term liabilities
- » Above average fixed costs

Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material increase in reserves and liquidity
- » Material decrease in long-term liabilities
- » Substantial tax base growth and improved resident wealth and income

Factors that could lead to a downgrade

- » Material deterioration of tax base or resident wealth and income
- » Significant growth in long-term liabilities or fixed costs
- » Deterioration of reserves and liquidity

Key indicators

Exhibit 1

New Windsor (Town of) NY

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$2,067,173	\$2,155,401	\$2,347,648	\$2,566,117	\$2,623,478
Population	26,799	27,012	27,296	27,516	27,516
Full Value Per Capita	\$77,136	\$79,794	\$86,007	\$93,259	\$95,344
Median Family Income (% of US Median)	131.7%	143.5%	143.8%	138.6%	138.6%
Finances					
Operating Revenue (\$000)	\$22,547	\$28,231	\$26,389	\$26,193	\$28,950
Fund Balance (\$000)	\$6,809	\$9,114	\$8,762	\$9,692	\$11,301
Cash Balance (\$000)	\$5,544	\$7,542	\$7,491	\$8,881	\$11,166
Fund Balance as a % of Revenues	30.2%	32.3%	33.2%	37.0%	39.0%
Cash Balance as a % of Revenues	24.6%	26.7%	28.4%	33.9%	38.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$15,715	\$28,678	\$26,568	\$31,457	\$30,131
3-Year Average of Moody's ANPL (\$000)	\$35,102	\$34,572	\$37,045	\$46,169	\$51,499
Net Direct Debt / Full Value (%)	0.8%	1.3%	1.1%	1.2%	1.1%
Net Direct Debt / Operating Revenues (x)	0.7x	1.0x	1.0x	1.2x	1.0x
Moody's - ANPL (3-yr average) to Full Value (%)	1.7%	1.6%	1.6%	1.8%	2.0%
Moody's - ANPL (3-yr average) to Revenues (x)	1.6x	1.2x	1.4x	1.8x	1.8x

Sources: US Census Bureau, New Windsor (Town of) NY's financial statements and Moody's Investors Service

Profile

The Town of New Windsor is located in [Orange County](#) (Aa2 stable) in New York's Hudson Valley, approximately 50 miles north of [New York City](#) (Aa2 stable). As of 2020, the town had 27,805 residents.

Detailed credit considerations

Economy and tax base: growing tax base with above average wealth and income

The town's \$2.7 billion tax base will grow over the long-term given significant residential developments and increasing commercial and industrial projects. The tax base has increased at a strong 6.2% five year compound annual growth rate. Future growth will be driven by significant residential developments. Management reports numerous projects in development including over 140 units in an apartment complex, 124 townhouse units, and 92 single family homes. On the commercial and industrial sides, a \$30 million approved battery storage facility started construction last year, a 74,000 square foot industrial warehouse was 50% complete as of May 2022, and the installation of taxable water main and multi-million dollar pipeline by the Village of Kyras Joel and a new solar farm were 90% completed as of May 2022. Management also reports the increasing air cargo volumes which led to growth in storage and distribution facilities near Stewart International Airport, which is located within the town.

The town's wealth and income are above average, with median family income equal to 138.6% of the national level. Full value per capita aligns with the state and national medians at \$95,344. While the town is primarily residential, top employers include a number of small and mid-size manufacturers, and residents benefit from employment opportunities in multiple nearby metro centers.

Finances and liquidity: strong and stable financial position

The town's financial position is expected to remain strong given conservative budgeting and an anticipated surplus in fiscal 2022. Fiscal 2021 ended with a strong operating surplus of \$1.8 million, leading to an \$11.3 million available fund balance (inclusive of General fund, Highway Fund and Debt Service Fund) or a strong 39% of revenues. The surplus was mainly driven by higher than budgeted state

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reimbursements received from the Department of Environmental Conservation (DEC) for the purchase of drinking water from New York City's Catskill Aqueduct and increasing revenue stream for mortgage tax and sales tax in fiscal 2021.

The town's Butterhill wells was found to have PFAS contamination (a harmful chemical that causes cancer) due to the use of firefighting foam at Stewart International Airport in 2019. The issue was resolved with a temporary water treatment system in 2019, but it reduces how much total water the town can draw. As a result, since 2019, the town has been forced to purchase water from New York City. Positively the state reimbursed approximately \$3.4 million to cover the costs of the water purchases; \$1.8 million of the funds was received in 2021, the remaining will be received in 2022. The town has received 102 notices of claims seeking damages related to the water contamination issue. However, management believes these will not have material negative impacts to the financial position, as none of the claims have been successfully settled and due to statute of limitation, most of the claims will expire in July 2022. Additionally, the town filed a lawsuit against the federal government, Stewart Airport's past and current operators and other related parties to recover damages.

Fiscal 2022 is trending positively with an anticipated \$1.5 million operating surplus, which is mainly driven by the state reimbursements for the purchases of water and higher mortgage tax and sales tax revenues. Additionally, the town is allocated to receive \$2.8 million in federal ARPA funding, half of which was received in 2021; the remainder will be received in fiscal 2022. The property tax levy is expected to increase by 3.08%, below the tax cap of 3.1%. The fiscal 2023 budget process will begin by the end of June 2022, management does not foresee any major challenges to the budget.

The town's primary revenue sources include property taxes (44.1% of fiscal 2021 operating revenues) which are guaranteed in full by Orange County, and non-property taxes including sales and franchise taxes (19.4%).

Liquidity

Net cash will remain strong enough to support the town's operations without relying on external liquidity sources. By the end of fiscal 2021, the cash balance is 11.2 million or a strong 38.6% of revenues.

Debt and pensions: elevated long-term liabilities

The town's debt burden will remain manageable despite future issuance plans. Post issuance of the 2022 Serial Bonds, the town will have \$39.1 million in net direct debt outstanding, representing a moderate 1.4% of full value and 135.1% of revenues. The town is in the design phase of upgrading its Waste Water Treatment Plant (WWTP) for an approximate cost of \$59.1 million; \$3 million for the engineering design of the project was issued in 2021. The NYS Environmental Facilities Corp (EFC) will cover approximately \$14.8 million of the costs, which reduces the future financing amounts to \$41.4 million. The project will be financed over a series of notes or bonds beginning 2024.

Legal security

Payment of principal and interest on the town's general obligation bonds is backed by the town's faith and credit supported by the town's authority to levy such ad valorem property taxes as may be necessary to pay the bonds, as limited by New York State's legislative cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

All of the town's debt is fixed rate.

Debt-related derivatives

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

Pensions and OPEB

The town's total leverage including debt, pensions and OPEB liabilities is higher than those similarly rated peers at 476% of the total revenues and, though manageable at this time, represents a potential future credit challenge. The town participates in New York State and Local Employees' Retirement System (ERS) and Local Police and Fire Retirement System, both of which are multiple employer cost-sharing pension plans, and funds OPEB on a pay-go basis. The table below summarizes the town's 2021 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

	2021	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue		28,950	n/a	n/a
Reported Unfunded Pension Liability		2,647	9%	5.90%
Moody's Adjusted Net Pension Liability		49,036	169%	3.22%
Reported Net OPEB Liability		71,147	246%	1.91%
Moody's Adjusted Net OPEB Liability		58,869	203%	2.83%
Net Direct Debt		30,131	104%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)		138,036	476.80%	
Pension Contribution		2,221	7.67%	n/a
OPEB Contribution		969	3.35%	n/a
Debt Service		2,658	9.18%	n/a
Total Fixed Costs		5,848	20.20%	n/a
Tread Water Gap		967	3.34%	n/a
Moody's Adjusted Fixed Costs		6,816	23.54%	n/a

[1] A positive pension tread water gap reflects a pension contribution less than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. [2] A negative tread water gap reflects a contribution greater than the amount required to keep the unfunded liability from increasing if all assumptions are realized.

Sources: Moody's Investors Service; New Windsor Town NY's financial statements

The town's 2021 pension contributions almost met tread water, the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. To the extent that the multiple-employer pension plans in which the town participates experience returns on assets that fall short of their assumptions, the town's required pension contribution will increase.

The town's OPEB liability is elevated. Unlike pensions, New York State law does not allow for local governments to fund a trust for OPEB. While legislation to allow local governments to fund a trust is currently under discussion, the town continues to make its annual OPEB contribution. Absent legislation or changes to benefits, the town's adjusted net OPEB liability, which is high at 203% of operating revenue, will continue to grow as benefits accrue. The pay-go contribution will also increase as the number of retirees covered increases and they age.

Fiscal 2021 fixed costs, comprised of pension tread water, OPEB contribution and debt service, represented an above average 23.5% of total revenues.

ESG considerations

Environmental

Environmental consideration are not a material driver of the town's credit profile. According to data from Moody's ESG solutions, the town has medium exposure to hurricanes and water stress. The town is located in Orange County, which has an environmental score of E-3, which has moderate extreme hurricanes and nor'easters exposure. Favorably, the risks can be mitigated by its strong financial position, capital programs and infrastructure improvements. Additionally, the town can benefits from financial assistance from federal and state supports, like FEMA and state grant reimbursements.

Social

Social issues are unlikely to pose a material credit risk in the median term. The town's poverty rate of 5.7% is lower than the national rate 13.4%. Unemployment in Orange County was 3.6% as of March 2022 which is below the state of 4.7 and national rate of 3.8%.

Governance

Management budgets conservatively and has historically maintained stable reserves and liquidity.

New York cities have an institutional framework score ¹ of "Aa", which is strong. New York Cities 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 and many local governments have done so when necessary. Unpredictable revenue fluctuations tend to be low, reflected in expense growth being under 5% on average across the whole sector. Fixed and mandated costs are generally below 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be low, however, reflective in expense growth being under 5% on average across the whole sector.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

New Windsor (Town of) NY

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$2,794,864	Aa
Full Value Per Capita	\$101,572	Aa
Median Family Income (% of US Median)	138.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	39.0%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	12.0%	Aa
Cash Balance as a % of Revenues	38.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	16.6%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.4%	Aa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.8%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.8x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, New Windsor Town of NY's financial statements and Moody's Investors Service

Endnotes

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(July 2020\)](#) methodology report for more details.

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