

RatingsDirect®

Summary:

Ocean Beach Village, New York; General Obligation; Note

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Credit Profile

US\$4.5 mil BANs ser 2017 C dtd 07/06/2017 due 04/12/2018

<i>Short Term Rating</i>	SP-1+	New
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US\$1.0 mil BANs ser 2017 B dtd 07/06/2017 due 04/12/2018

<i>Short Term Rating</i>	SP-1+	New
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Ocean Beach Vill GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'SP-1+' short-term rating to Ocean Beach Village, N.Y.'s series 2017B and 2017C general obligation (GO) bond anticipation notes (BANs), maturing April 12, 2018, and affirmed its 'AAA' long-term rating, with a stable outlook, on the village's existing GO debt.

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

We understand officials plan to use series 2017B and 2017C BAN proceeds to finance sewer-treatment-plant improvements and a ferry-terminal capital project.

We rate the village higher than the nation because we believe Ocean Beach can maintain better credit characteristics than the nation 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. In fiscal 2016, local property taxes generated 47% of village revenue followed by the use of property at 15%, which demonstrated a lack of dependence on central government revenue.

The short-term rating reflects our opinion that Ocean Beach will likely maintain a very strong ability to pay principal and interest when the BANs come due. In our opinion, the village maintains a low market-risk profile because it has strong legal authority to issue long-term debt to take out the BANs and it is a frequent debt issuer that provides ongoing regular disclosure to market participants.

The long-term rating reflects our opinion 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;
- Very 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 80% of operating expenditures;
- Very strong liquidity, with total government available cash at 131.6% of total-governmental-fund expenditures and 31.5x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt-service-carrying charges at 4.2% of expenditures and net direct debt that is 60.5% of total-governmental-fund revenue, as well as low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Ocean Beach's economy very strong. The village, with an estimated population of 55, is located in Suffolk County in the New York-Newark-Jersey City MSA, which we consider broad and diverse. The village has a projected per capita effective buying income of 156% of the national level and per capita market value of \$6.2 million. Overall, the village's market value grew by 3.5% over the past year to \$340.2 million in fiscal 2017. The county unemployment rate was 4.3% in 2016.

Ocean Beach is on Fire Island, an outer-barrier island parallel to Long Island's south shore. The village has a permanent population estimate of 55. However, its population rises to about 1,500 in the spring and fall and almost 2,500 in the summer. The village serves primarily as a summer destination for wealthy New Yorkers and daily visitors.

Ocean Beach has largely recovered from damage sustained during Hurricane Sandy in 2012. During the storm, portions of the village closer to the shore experienced significant damage. Several village-owned docks suffered major damage, as did the police department building and Village Hall. However, only one home was destroyed. With state and federal government assistance, including the Federal Emergency Management Agency, the village was able to recover with restored operations.

According to management, it has made new dunes and crosswalks and other infrastructure improvements since the storm with most funding provided by federal and state agencies. In addition, rebuilding efforts have resulted in increased building permits and property values for many homes and businesses over the past few years. Property turnover has been low, and officials report there has been a renewed interest from potential buyers for much of the village's property.

We believe the speed at which Ocean Beach was able to rebuild and the continued strength of the property tax base demonstrates its resilience to stress scenarios. Due to very strong wealth and income and a commitment on the part of the tax base to the village's vibrancy, we do not expect to change our assessment of its economy during 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.

Highlights include management's:

- Conservative budgeting,
- Minimum three-year historical trend analysis, and

- Quarterly reports to the village board on budget-to-actual results.

The village maintains a five-year capital improvement plan that does not identify funding sources and a formal investment policy with regular reports on holdings and earnings to the board. There is no formal debt-management policy or long-term financial plan. The village, however, has a formal reserve policy of maintaining available fund balance at a minimum of 45% of expenditures, which it adheres to currently.

Very strong budgetary performance

Ocean Beach's budgetary performance is very strong, in our opinion. The village had operating surpluses of 14.9% of expenditures in the general fund and 35.2% of expenditures across all governmental funds in fiscal 2016.

Fiscal 2016 results include adjustments for recurring transfers and one-time capital expenditures paid for with bond proceeds. The village has posted consecutive general fund surpluses over the past five fiscal years in excess of 5% of expenditures. Management attributes these surpluses, including the fiscal 2016 general fund surplus, to higher-than-expected revenue. In particular, the village has seen increases in building permit fees and ferry-rental income, which it normally budgets for very conservatively; this usually outpaces the budget by fiscal year-end.

Officials also indicate they budget conservatively for expenditures, which results in cost savings by fiscal year-end. In fiscal 2016, the village saw savings in public-safety; technology; and capital expenditures, among other areas.

For fiscal 2017, officials estimate Ocean Beach ended with a surplus of at least \$400,000 due to positive variances in budget-to-actual revenue and expenditure results. We estimate this surplus will be about 6.1% of the fiscal 2017 budget.

The fiscal 2018 budget totals \$6.7 million, a 2.7% increase over fiscal 2017, including an 8.7% increase in property taxes, with no fund balance appropriated toward the budget. Therefore, due to current fiscal 2017 estimates and historical performance during the past three fiscal years, we expect budgetary performance to remain very strong. Property taxes account for 47% of general fund revenue, followed by the use of property at 15%.

Very strong budgetary flexibility

Ocean Beach's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 80% of operating expenditures, or \$4.8 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 village has consistently maintained very strong reserves over the past three fiscal years. Officials attribute increased reserves to positive financial performance over the past few fiscal years. The village has also increased reserves to safeguard against any future unexpected costs or emergencies, including maintaining reserves for storm damage as part of available fund balance, which totaled \$1 million as of fiscal 2016.

For fiscal 2017, the village estimates it will have ended with another increase in reserves. Management's formal reserve policy calls for maintaining available reserves at a minimum of 45% of expenditures, which it adheres to currently. Officials indicate they could potentially draw down fund balance during the next two fiscal years to three fiscal years to remain closer to the policy. We, however, expect the village to maintain its very strong budgetary flexibility.

Very strong liquidity

In our opinion, Ocean Beach's liquidity is very strong, with total government available cash at 131.6% of total-governmental-fund expenditures and 31.5x governmental debt service in fiscal 2016. In our view, the village has strong access to external liquidity if necessary.

Ocean Beach's issuance of GO bonds and BANs during the past 15 years demonstrates its strong external liquidity. The village does not have any investments outside of cash accounts. It does not currently have any contingent-liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. Therefore, we expect the liquidity profile to remain very strong.

Strong debt-and-contingent-liability profile

In our view, Ocean Beach's debt-and-contingent-liability profile is strong. Total-governmental-fund debt service is 4.2% of total-governmental-fund expenditures, and net direct debt is 60.5% of total-governmental-fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor.

With this issuance, the village will have about \$14.8 million in total direct debt, approximately \$12.7 million of which is BANs. In addition, state and federal grants, which the village has been approved for, will reimburse about \$9.4 million of debt. Ocean Beach plans to finance its short-term debt permanently within the next two years. Officials currently plan to issue about \$3.5 million in additional debt over the next year for various capital improvement projects.

Ocean Beach's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 5.3% of total-governmental-fund expenditures in fiscal 2016. Of that amount, 4.3% represented required contributions to pension obligations and 1% represented OPEB payments. The village made its full annual required pension contribution in fiscal 2016.

Ocean Beach contributes to the New York State Employees' Retirement System and the New York State Police & Fire Retirement System, collectively known as the New York State & Local Retirement System, for pensions. The system is 91% funded. The village contributed \$282,491 to pensions in fiscal 2016. Its proportionate share of the net pension liability totaled \$1.9 million as of fiscal 2016, which we view as manageable.

Strong institutional framework

The institutional framework score for New York villages is strong.

Outlook

The stable outlook on the long-term rating reflects S&P Global Ratings' opinion of the village's very strong economy, supported by its access to the New York City MSA. We believe the village's very strong budgetary performance; liquidity; and budgetary flexibility, coupled with a strong debt-and-contingent-liability profile, further support the rating. Therefore, we do not expect to change the rating within our two-year outlook period. However, if budgetary performance were to deteriorate, leading to significant drawdowns in reserves, or if debt were to increase notably, we could lower the rating.

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
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.