

## CREDIT OPINION

27 October 2021

 Rate this Research

### Contacts

Christopher Yared +1.617.535.7693  
 Analyst  
 christopher.yared@moodys.com

Robert Weber +1.212.553.7280  
 VP-Senior Analyst  
 robert.weber@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653

Asia Pacific 852-3551-3077

Japan 81-3-5408-4100

EMEA 44-20-7772-5454

# Tuxedo (Town of) NY

Update to credit analysis following upgrade to A3

## Summary

Tuxedo, NY (A3 positive) has significantly improved its financial position with conservative budgeting practices and a significant increase in payments from the town's largest taxpayer, which is the State of New York (Aa2 positive). Additionally, the town benefits from a modest tax base with plans for significant development, above average resident wealth and incomes, and manageable long term liabilities including debt, pension, and OPEB.

On October 27, 2021 we upgraded the town's issuer rating and GOLT ratings to A3 from Baa2. The outlook remains positive.

## Credit strengths

- » High resident wealth and incomes
- » Recent significant property tax increases
- » Recent and ongoing efforts to control expenditures

## Credit challenges

- » Stagnant tax base with recent history of declines only partially offset by potential new development

## Rating outlook

The positive outlook indicates our expectations that management will continue to maintain reserves and liquidity at a level commensurate with higher rating categories.

## Factors that could lead to an upgrade

- » Maintenance of improved reserves and liquidity
- » Material tax base growth

## Factors that could lead to a downgrade

- » Reversion to structural imbalance across operating funds
- » Significant deterioration in net cash position
- » Material decline in the tax base or resident wealth and incomes

## Key indicators

Exhibit 1

Tuxedo (Town of), NY	2016	2017	2018	2019	2020
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$1,028,121	\$1,029,769	\$1,052,948	\$1,072,196	\$1,082,720
Population	3,547	3,552	3,528	3,534	3,534
Full Value Per Capita	\$289,857	\$289,912	\$298,455	\$303,394	\$306,372
Median Family Income (% of US Median)	184.7%	184.7%	205.6%	228.3%	228.3%
<b>Finances</b>					
Operating Revenue (\$000)	\$7,136	\$7,164	\$7,291	\$7,397	\$7,475
Fund Balance (\$000)	(\$1,259)	\$142	\$2,034	\$3,128	\$3,678
Cash Balance (\$000)	\$172	\$977	\$2,134	\$3,438	\$3,681
Fund Balance as a % of Revenues	-17.6%	2.0%	27.9%	42.3%	49.2%
Cash Balance as a % of Revenues	2.4%	13.6%	29.3%	46.5%	49.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$3,011	\$3,091	\$3,017	\$2,954	\$2,804
3-Year Average of Moody's ANPL (\$000)	\$12,146	\$12,276	\$10,195	\$8,128	\$7,956
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.3%
Net Direct Debt / Operating Revenues (x)	0.4x	0.4x	0.4x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.2%	1.2%	1.0%	0.8%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	1.7x	1.4x	1.1x	1.1x

Source: Moody's Investors Service and issuer's audited financial statements

## Profile

The town of Tuxedo is located 35 miles north of New York City (Aa2 stable) in Orange County (Aa2 stable). The town maintains a population of approximately 3,500.

## Detailed credit considerations

### Economy and tax base: Modestly sized but wealthy tax base

Tuxedo's modestly sized \$1.1 billion tax base will remain stable in the near term due to its strong resident wealth and incomes and modest ongoing development. The town is located in Orange County within commuting distance of New York City. The town is primarily residential with a full value per capita of \$306,372 and median family income equal to 228% of the national median.

After several years of decline following the great recession, Tuxedo's tax base has rebounded, with several years of growth, though today's valuation remains below its pre-recession peak. Management reports several ongoing development projects which would help grow the tax base, the largest of which is the redevelopment of Tuxedo Farms, which has been stalled for many years, but may finally be close to starting. When completed, this project would add as many as 1,800 housing units and over 3,000 new residents, which would effectively double the size of the tax base and population. While the developer, Related Companies, received a permit to begin work several years ago, the company is now going back to the town to enact change orders to the final design. Once these design changes are negotiated, we expect Phase 1 (representing 1,000 homes) to begin.

Importantly, the town recently completed a reassessment of the state owned parklands that fall within town boundaries. That reassessment will lead to New York state, the town's largest taxpayer, contributing a proportionally higher amount of the town's total property taxes, thereby alleviating the tax burden for local residents.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

**Financial operations and reserves: Considerably improved financial reserves and liquidity**

The town's finances will likely continue to be much improved in the near to medium term thanks to strong measures taken by management to reverse the history of poor budgeting and structural imbalance which led to the town's previously weak financial position. Fiscal 2020 audited results reflected a \$647,000 surplus, which pushed available fund balance to \$3.7 million or a very strong 50% of revenues (note: fund balance as recently as fiscal 2016 was negative). Property taxes represent 78% of total revenues, while sales taxes provide an additional 7%. The largest expenditures are general government, public safety, and employee benefits at 23%, 22%, and 20%, of total costs respectively.

The material improvement is due to a combination of better budgeting, material cuts in expenditures, and increased taxes. Specifically, management took numerous steps to fix matters. Financial and reporting measures included reporting finances to the board on a monthly basis and including a fund balance restoration line item in the past several budgets. Operationally, the town eliminated the town dispatch department (it now uses that of Orange County) as well as the midnight police shift (the state provides coverage). The town has made it clear that it seeks to continue improving its financial position. The extent to which it is able to do so will be a primary factor in future rating actions.

Fiscal 2021 results are expected to show breakeven operations when finalized. The budget increased marginally from fiscal 2020. Positively, the town received \$160,000 of ARPA funds in fiscal 2021 and expects to receive a similar amount in fiscal 2022.

**Liquidity**

Cash and investments at the end of fiscal 2020 represented \$3.7 million or 49% of revenues.

**Debt and pensions: Modest debt and pension burden**

At 0.3% of full value, net direct debt remains quite low and should remain low given a lack of significant debt plans in the near term.

**Legal security**

The bonds are backed by the town's general obligation pledge as limited by New York State's legislated cap on property taxes (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

**Debt structure**

The entire debt portfolio is fixed rate with 53% of principal retired in ten years. Fiscal 2020 debt service represented \$371,000 or 5% of revenues.

**Debt-related derivatives**

The town is not party to any interest rate swaps or derivative agreements.

**Pensions and OPEB**

The town's unfunded pension and OPEB liabilities are significantly larger than its debt and, though manageable at this time, represent a potential future credit challenge. The town participates in two multiple employer cost-sharing pension plans and funds OPEB on a pay-go basis. The table below summarizes the town's 2020 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

2020	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	7,475	n/a	n/a
Reported Unfunded Pension Liability	2,126	28%	6.80%
Moody's Adjusted Net Pension Liability	9,532	128%	3.12%
Reported Net OPEB Liability	15,231	204%	1.93%
Moody's Adjusted Net OPEB Liability	14,121	189%	2.52%
Net Direct Debt	2,804	38%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	26,456	354%	n/a
Pension Contribution	412	5.51%	n/a
OPEB Contribution	309	4.13%	n/a
Debt Service	371	4.96%	n/a
Total Fixed Costs	1,092	14.61%	n/a
Tread Water Gap	(134)	-1.79%	n/a
Moody's Adjusted Fixed Costs	958	12.82%	n/a

Source: Moody's Investors Service and issuer's audited financial statements

Favorably, the town's 2020 pension contributions exceeded 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. Because it is not pre-funding OPEB benefits as they accrue, which is not permitted under New York State law though changing that is under discussion in the legislature, the town's OPEB costs will likely escalate as the number of retirees it covers grows and retirees age.

## ESG considerations

### Environmental

Environmental considerations are not a key rating driver at this time, however, Moody's affiliate Four Twenty Seven has identified the town's exposure to water stress and hurricanes as high.

### Social

Outside of the ongoing COVID-19 pandemic, social considerations include the town's very high median family income and median home values and its elevated median age.

### Governance

The improved governance in recent years is a primary driver of the rating action. Management has worked to return the town's operations to structural balance by increasing revenues and constraining growth in expenditures. Over the near term, there are no major expected uses of fund balance that would diminish the town's recent financial progress.

New York towns have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York towns operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before adjusting for exemptions and rollovers). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

## 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 adjustments 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.

The three notch distinction between the A3 assigned rating and the Aa3 indicated scorecard outcome reflects our belief that while the town's financial position will continue to improve in the near term, the rate of change in fund balance and cash balance increases will slow over the next several years.

Exhibit 3

### Tuxedo (Town of), NY

Scorecard Factors and Subfactors	Measure	Score
<b>Economy/Tax Base (30%)</b> <sup>[1]</sup>		
Tax Base Size: Full Value (in 000s)	\$1,082,720	A
Full Value Per Capita	\$306,372	Aaa
Median Family Income (% of US Median)	228.3%	Aaa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	49.2%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	74.7%	Aaa
Cash Balance as a % of Revenues	49.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	49.2%	Aaa
<b>Notching Adjustments:</b> <sup>[2]</sup>		
Other Scorecard Adjustment Related to Finances:		Down
<b>Management (20%)</b>		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.1x	Aaa
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.3%	Aaa
Net Direct Debt / Operating Revenues (x)	0.4x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.7%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.1x	A
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	A3

[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

Source: US Census Bureau, Moody's Investors Service

© 2021 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJJK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJJK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJJK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJJK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJJK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJJK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY550,000,000.

MJJK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454