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CREDIT OPINION
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New Issue

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Glen Cove (City of) NY

New Issue: Moody's Assigns Baa3 Rating to Glen Cove NY's 2016 GOLT Bonds; Outlook is Positive

Summary Rating Rationale

Moody's Investors Service has assigned a Baa3 to Glen Cove, NY's $1.699 million Various Purposes Serial Bonds, 2016 Series B. Concurrently, we are affirming the Baa3 rating on the city's outstanding GOLT debt. The outlook has been revised to positive from stable.

The Baa3 rating reflects the city's sizeable and diverse tax base. The rating also incorporates the weak fund balance position, which continues despite a surplus in 2015 and the 2007 issuance of deficit financing, and a debt burden that pressures city finances.

Credit Strengths

» Improved budgeting practices in 2015 led to a surplus of almost $1 million in the General Fund

» Projected elimination of deficit fund balance position across operating funds at end of fiscal 2016

» Waterfront development expected to provide increase to tax base and economic activity going forward

» Large and diverse tax base

Credit Challenges

» Weak fund balance position remains negative as of fiscal 2015

» 2016 budget is balanced through anticipated one-time revenue associated with sale of waterfront property

» Historic issuance of debt to pay for tax certiorari and termination payments

Rating Outlook

The positive outlook reflects the city's anticipated sizeable additions to fund balance in fiscal 2016 following the sale of its waterfront property, after which the city expects to have a non-negative operating fund balance position for the first time since the issuance of its deficit financing bonds.

Factors that Could Lead to an Upgrade

» Continued improvement in the city's fund balance position

- Continuation of city's recently improved budgeting practices
- Sizeable additions to the tax base

Factors that Could Lead to a Downgrade

- Failure to realize revenues expected from the sale of waterfront property in fiscal 2016
- Underperformance relative to current expectations in fiscal 2016
- A 2017 budget that relies significantly on one-time revenues to maintain balanced operations

Key Indicators

Exhibit 1

Glen Cove (City of) NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,649,457	$ 3,648,221	$ 3,646,069	$ 3,630,495	$ 3,657,115
Full Value Per Capita	$ 136,103	$ 135,531	$ 134,805	$ 133,666	$ 133,471
Median Family Income (% of US Median)	121.0%	120.1%	124.1%	120.8%	120.8%
Finances					
Operating Revenue ($000)	$ 46,433	$ 47,695	$ 46,921	$ 46,065	$ 48,390
Fund Balance as a % of Revenues	-10.4%	-9.1%	-9.2%	-12.4%	-10.3%
Cash Balance as a % of Revenues	13.8%	16.1%	14.1%	4.7%	12.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 65,191	$ 66,009	$ 64,663	$ 69,023	$ 66,874
Net Direct Debt / Operating Revenues (x)	1.4x	1.4x	1.4x	1.5x	1.4x
Net Direct Debt / Full Value (%)	1.8%	1.8%	1.8%	1.9%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.4x	0.7x	0.9x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.9%	1.1%	1.4%

2016 Full Value: $3.61 billion
Source: Moody's Investors Service; City's Annual Audits

Detailed Rating Considerations

Economy and Tax Base: Large and Diverse Tax Base Expecting Growth from Waterfront Development

The city's sizeable and diverse $3.6 billion tax base benefits from its proximity to New York City (Aa2 stable). Full value decreased 1.4% in 2016 and is still approximately 24% below its 2009 peak, largely due to successful tax appeals. Full value per capita, at $132,764, is well above average. The city has seen recent redevelopment activity in its downtown and expects a mixed use development to break ground in the next few months. Additionally, the city has been working with federal and state agencies for ten years to bring about environmental remediation to 56 acres of city agency-owned waterfront property. The city expects this property to be sold to a private developer for approximately $15 million, and the net revenue to the city from the sale is expected to be at least $3.5 million in fiscal 2016, which the city plans to use to bring its currently negative operating fund balance to zero or slightly positive. The fiscal 2016 budget is balanced using this one-time revenue source. Going forward, the city expects the site to house an 1,100 unit residential property, an ecology marina, restaurants, and commercial space. The city expects the development of the waterfront to bring about 460 jobs during construction and 550 jobs post construction. Construction of a ferry terminal was finished in 2015, and the city plans to ultimately select a private ferry operator and provide service to Manhattan. Management expects the development of the waterfront to bring about significant economic activity and ultimately bring the 52 acres on to the tax roll upon completion of the entire project in 5 to 6 years. The city projects that the development will bring net revenue to the city of approximately $175 million over the next forty years.

The median family income is above average at 120.8% of the US median, according to the 2014 American Community Survey. As of June, city unemployment, at 3.4%, is lower than that of the state (4.5%) and nation (5.1%).

Financial Operations and Reserves: Surplus Operations in Fiscal 2015 Following Years of Deficits

Glen Cove has a history of imbalanced operations, which have led to the continuation of city-wide deficit fund balances in fiscal 2015 despite a 2007 Financial Recovery Plan which included the issuance of deficit financing bonds and revenue enhancements. In fiscal 2014, the city experienced a $852,000 deficit, largely attributable to an increase in debt service, snow removal overruns, water infrastructure maintenance, loss of revenues associated with a sale of property that never materialized, and some major revenue sources coming in under budget. The city ended fiscal 2014 with an available operating fund balance of -$5.7 million, or -12.4% of revenues.

Financial performance in fiscal 2015 was much stronger, with an almost $1 million operating surplus in the general fund, and the total operating fund balance (which includes the general, debt service, non-major governmental and water funds) improving to -$4.97 million, or -10.3% of operating revenue. In 2014, a voluntary retirement incentive plan was established which management reports yielded a net savings of $303,000 for fiscal 2015. Similar savings are expected annually through 2017. Management reports that fiscal 2016 is expected to end with a sizeable addition to fund balance levels, almost entirely due to the expected sale of the waterfront property in the fall, which will bring operating fund balance to zero or slightly positive for the first time since the issuance of deficit financing bonds in 2007.

The city has historically borrowed for the tax certiorari payments, and continued to do so in fiscal 2016, but has been increasing the budget allotted for such payments and plans to budget the full amount expected to be due of between $800,000 and $900,000 in fiscal 2017. The city also expects to end its practice of issuing debt to pay for personnel termination payments and budgeted this full expense in 2016. The fiscal 2016 budget is balanced without the use of any fund balance across operating funds. However, the budget does include the anticipated one-time payment of $3.5 million from the sale of the waterfront property. Not included in the 2016 budget is $10 million the city expects to receive from its Industrial Development Agency to reimburse it for upfront costs associated with the waterfront. Management plans to use such funds to add to fund balance as needed in fiscal 2016 and 2017.

LIQUIDITY

The city's operating fund cash position as of fiscal 2015 was $6.1 million, or 12.7% of operating revenue, up significantly from $2.16 million, or a weak 4.7% of revenues, in fiscal 2014, which was largely attributable to a Revenue Anticipation Note payment in January 2014.

Debt and Pensions: Above Average Debt Position with Rapid Amortization of Principal

The city's direct debt burden of 2% is above average but expected to decline given rapid amortization of principal (95.6% repaid within ten years) and moderate future borrowing plans. The overall net debt burden of 4% is also above average. Future borrowing plans will be approximately $3 to $4 million a year, which will not have a significant impact on debt burden. Once the 2007 deficit financing bonds mature, debt service is projected to drop significantly from $7.6 million in 2017 to $4.8 million in 2018.

DEBT STRUCTURE

All of the city's debt is fixed rate. As of the current issuance, the city has $35.6 million in long-term rated GO debt and $15.3 million of Bond Anticipation Notes outstanding, which are unrated.

DEBT-RELATED DERIVATIVES

The city is not party to any derivative agreements.

PENSIONS AND OPEB

The city has historically been challenged to meet its pension obligations within its budget structure and has chosen to amortize a portion of its projected obligation annually from 2011 through 2015. Since 2010, the state comptroller has allowed municipalities to borrow from the pension fund and defer the cost of pension payments over a ten-year amortization period. To date, the city has amortized $3.36 million in pension payments due in fiscal 2011 through fiscal 2015, but did not amortize in 2016 and does not plan to going forward. Repayment of the pension amortization will create additional budget pressure in future years.

The city participates in the New York State and Local Employees' Retirement System and the New York State and Local Police and Fire Retirement System, two multi-employer cost sharing pension plans. The city's combined adjusted net pension liability as of fiscal 2014, under Moody's methodology for adjusting reported pension data, is an average 1.1 times total operating revenues. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans and do not factor in the city's recent amortizations.

Other post-employment benefit (OPEB) costs totaled $2.6 million in fiscal 2014. Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree healthcare payments, represented $13.6 million, or a high 28.7% of revenues.

Management and Governance

The city's improved financial management practices have allowed a return to balanced operations in fiscal 2015 and projected for fiscal 2016.

New York cities, towns and villages have an institutional framework score of 'A' or moderate. Revenues are largely comprised of property, sales, and mortgage taxes, as well as building permits. Property tax revenues are subject to the tax cap but can be overridden with a 60% vote of the local legislative body. Economically sensitive revenues remain below peak levels prior to recession. Expenditures are largely predictable but the presence of strong collective bargaining groups make it difficult to reduce expenditures.

Legal Security

The bonds are secured by the city's general obligation pledge as limited by the Property Tax Cap-Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Use of Proceeds

The bonds are being issued largely to fund street improvements, but will also be used for various other transportation and capital equipment needs.

Obligor Profile

Glen Cove is located in Nassau County on the North Shore of Long Island, with a population of 27,314 (2014 American Community Survey).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Glen Cove (City of) NY

Issue	Rating
Various Purposes Serial Bonds - 2016 Series B	Baa3
Rating Type	Underlying LT
Sale Amount	$1,699,305
Expected Sale Date	08/25/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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