



Oyster Bay NY Continues Its Slide Into Non-Investment Grade Territory

**S&P cites 10 consecutive years of operating deficits
Town is late in providing audited financial statements
Base CUSIP Number: 692160**



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The Town of Oyster Bay's history goes back to 1653. It stretches from Long Island Sound to the Atlantic Ocean in the center of Long Island, and includes Hicksville, Plainview & Farmingdale. Population has stabilized at about 293,000 since 1990. Some of its major employers with 1500 or more employees include GEICO, Saint Francis Hospital & Long Island University. Its economy is diversified, with leading taxpayers comprised of public utilities, malls, and office buildings. The Township's unemployment rate has been below the county and state since at least 2008. The Town is wealthy, with 2013 median household income of about \$189,000, compared to the State's \$57,000.



Median home values are nearly \$1 million. However, the Town is still experiencing the lingering effect of the last recession and the impact of Hurricane Sandy in 2012. Much of its recent debt issuance has been for restoring parks, beaches and highways from the storm. Despite high relative levels, the Town's income and assessed property values have seen declines since 2008.

In April 2016, Standard & Poor's (S&P) downgraded the town's rating to "BB+", below investment grade. The rating was as high as "AA" in 2012. S&P's action was justified; you can't run 10 consecutive years of deficits and get away with it, regardless of wealth and economic strength. The Town's economy and income levels are very good; leading me to believe this is correctable. The chart below tracks the chronic deficits and the one-shot use of a property sale in 2013.

Town of Oyster Bay, NY							
General Fund Selected Financial Statistics (\$millions)							
Fiscal Year Ending December 31	2008	2009	2010	2011	2012	2013	2014
Revenue	\$80.9	\$88.9	\$92.3	\$97.7	\$108.8	\$124.3	\$109.7
Property Taxes	\$22.1	\$25.1	\$25.2	\$30.2	\$38.0	\$37.9	\$37.9
State Revenue	\$22.6	\$12.1	\$11.1	\$10.4	\$11.4	\$12.1	\$10.5
Intergovernmental (Mostly Sales Taxes)	\$0.3	\$12.8	\$13.4	\$13.2	\$13.8	\$0.0	\$13.9
Interfund Revenue	\$21.6	\$24.4	\$24.4	\$29.2	\$29.9	\$28.4	\$29.9
Miscellaneous	\$14.3	\$14.5	\$18.2	\$14.7	\$15.7	\$45.9	\$17.5
Expenditures	\$73.5	\$80.0	\$84.1	\$84.8	\$97.6	\$92.6	\$95.6
General Government	\$34.0	\$35.5	\$36.6	\$34.1	\$39.7	\$37.9	\$39.3
Public Safety	\$4.8	\$4.6	\$4.6	\$5.1	\$5.4	\$4.8	\$5.2
Culture & Recreation	\$14.5	\$16.8	\$17.9	\$18.5	\$18.4	\$16.5	\$17.3
Employee Benefits	\$14.7	\$15.9	\$17.8	\$20.5	\$25.5	\$24.3	\$24.6
Debt Service	\$2.3	\$2.1	\$1.7	\$1.9	\$3.4	\$5.1	\$4.6
Miscellaneous	\$3.2	\$5.1	\$5.5	\$4.7	\$5.2	\$4.0	\$4.6
Operating Surplus (Deficit)	\$7.4	\$8.9	\$8.2	\$12.9	\$11.2	\$31.7	\$14.1
Operating Transfers Out	(\$10.3)	(\$14.1)	(\$14.3)	(\$16.1)	(\$17.0)	(\$23.4)	(\$33.2)
Excess Revenue/Expenditure	(\$2.9)	(\$5.1)	(\$6.1)	(\$3.2)	(\$5.8)	\$1.5	(\$19.0)
Balance Sheet							
Cash & Investments	\$15.3	\$6.1	\$5.5	\$3.9	\$5.0	\$0.0	\$0.0
Due From State & Federal Government	\$1.9	\$1.9	\$6.5	\$1.8	\$2.4	\$2.1	\$2.1
Due From Other Governments	\$0.6	\$3.5	\$7.3	\$11.4	\$9.5	\$3.4	\$4.0
Accounts Payable	(\$4.8)	(\$5.3)	(\$6.2)	(\$7.5)	(\$5.8)	\$6.8	(\$9.1)
Revenue Anticipation Notes Payable	\$0.0	\$0.0	(\$12.5)	(\$12.5)	(\$16.8)	\$0.0	(\$20.0)
Accrued Other Liabilities	\$1.5	\$0.4	(\$0.5)	\$0.6	(\$7.0)	(\$2.2)	(\$4.1)
Total Fund Balance	\$13.3	\$8.2	\$2.1	(\$1.1)	(\$6.9)	\$1.5	(\$17.5)



Unaudited 2015 results for the General Fund are expected to break even, with some surplus in other funds. The budget for 2016 indicated a use of about \$8 million of “surplus” funds to balance the budget. However, Town officials have realized that there are no surplus funds available, and are now reviewing revenue and spending items to return to balance for this year. It is noteworthy that Oyster Bay did not increase its property tax levies for 2016.

S&P cited the history of deficits, and a lack of forward planning by financial managers. To Oyster Bay’s credit, much of its debt issuance and economic indicators can be traced to Hurricane Sandy.

I’ve long said that financial catastrophes are usually self-inflicted wounds by management. That looks like the key here. The question is: who will resolve this situation and how will it be remedied. It has the fundamentals for higher ratings.

One can’t rule out the possibility that NY State creates a control Board (like in NYC, Yonkers, Nassau & Suffolk Counties), which would keep this out of free fall and start it on the road back to investment grade. The State Comptroller’s local government division is active in tracing city, town and school finances. Its last review, however, is dated, based on 2013 financials. Still, at that time Oyster Bay was rated as “Susceptible to Fiscal Stress” by this division, so it is definitely on the State’s radar screen. Fiscal oversight here would be a strong positive.

It has the potential for price appreciation for those that have some tolerance of risk. I believe that at some point soon, the State will take a more active role in the Town’s finances.



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