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Hempstead Village, New York; General Obligation

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Table Of Contents

Rationale

Outlook

Financial Management Assessment: 'Standard'

Hempstead Village, New York; General Obligation

Credit Profile

US\$2.435mil var purp serial bnds 2009 ser A dtd 02/15/2009 due 02/15/2025

Long Term Rating

A-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A-' long-term rating, and stable outlook, to Hempstead Village, N.Y.'s \$2.435 million series 2009 various purposes serial bonds.

The rating reflects our opinion of the village's:

- Strong regional economy with easy access to, and participation in, the deep, diverse, and affluent Nassau-Suffolk and New York City metropolitan statistical areas (MSAs);
- Improving tax collection rate, coupled with a proactive tax-lien sale process; and
- Moderate overall net debt burden, coupled with manageable future capital needs.

These strengths are somewhat mitigated, in our opinion, by the village's:

- Improved fund balance position, though bolstered by the fiscal 2007 issuance of deficit bonds to bring the general fund back to solvency;
- History of declining assessed valuation, coupled with significant property tax delinquencies; and
- Adequate wealth levels.

The bonds are general obligations (GOs) of the village, secured by its full faith and credit pledge. Proceeds from the sale of the bonds will fund various capital projects and equipment acquisitions.

The village of Hempstead (2008 population: 55,083) encompasses approximately 3.8 square miles in the town of Hempstead (AAA/Stable), in the geographical center of Nassau County, N.Y. (A+/Stable) on Long Island. Located approximately 22 miles from the center of Manhattan, residents maintain access to broad employment opportunities throughout the Nassau-Suffolk and New York City MSAs. The village maintains a mixed-use downtown area comprised of retail, service, office and governmental uses, as well as higher density and single-family residences. The village's local economy and central business district, however, have shown significant declines in recent years, with the closures of major retailers and the nearby Mitchel Air Field; management is presently working on the implementation of a comprehensive plan to spur new downtown development and redevelopment. Services and trade make up 46.6% and 16% of county employment, respectively. Leading village employers include the town of Hempstead (government, 2,400 employees), Hofstra University (higher education, 1,600), Hempstead Public Schools (education, 802), and the village itself (government, 351). The village's unemployment rate historically tracks above both state and national levels, and measured 6.6% in 2008.

Village income levels remain good, with median household income at 97.9% and 98.2% of the state and national levels, respectively. Ongoing difficulties with tax appeals have resulted in annual declines in the village's assessed

valuation, and for fiscal 2008 village's assessed value (AV) measured \$83.36 million, representing a 9.2% decrease from 2004. The five-year decline in AV has strained the village's financial operations; to mitigate the negative impact, the village has steadily increased its property tax rate, with the 2009 rate of \$615.30 per \$1000 AV equal to 153% of the 2004 rate. Tax collections have shown some improvement in recent years, and the fiscal 2008 rate of 97.7% was the highest collection rate in nine years. Furthermore, the village has been proactive in its tax-lien sale process as lately, garnering \$2,450,000 in fiscal 2008. The tax base remains very diverse, with the 10 leading taxpayers accounting for just 8.3% of total AV in fiscal 2008. Fiscal 2008 market value continued to show strong growth, 30% since fiscal 2004, and totaled \$3.22 billion, or a strong \$58,431 per capita.

The village's financial performance is improving, following significant deterioration in recent years attributable to reductions in state aid, significant property tax delinquencies as well as a declining tax base due to tax certiorari proceedings, and increasing costs such as employee health care and pension payments. After accumulating deficits in its general, special revenue, and internal service funds as recently as fiscal 2006, the village closed with a \$1.63 million operating deficit, ending the year with an unreserved general fund deficit of \$7.77 million.

The village's financial profile has improved over the past two audited fiscal years (fiscals 2007 and 2008), largely due to deficit borrowing and the implementation of a financial recovery plan, which aims to improve tax and fee collections while holding the line on expenditure growth. Subsequent to the close of its 2006 fiscal year, the village issued nearly \$4.2 million in GO deficit bonds following state authorization. Due to deficit borrowing and the issuance of roughly \$5.7 million in GO bonds for tax certiorari, road construction, and water plant improvements, fiscal 2007 closed with a \$9.08 million operating surplus. The village's general fund closed with unreserved fund equity of \$2.44 million, or a good 5.2% of expenditures.

Following a 9.21% property tax increase in fiscal 2008, and a significant 53% (\$1 million) increase in state aid revenues, the village closed fiscal 2008 with a \$4.567 million operating surplus, ending the year with an unreserved general fund balance of \$6.925 million, or a strong 13.6% of expenditures. The fiscal 2009 budget totals \$64.5 million, representing a 1.8% increase year over year and includes a 2.76% property tax increase, and a \$500,000 fund balance appropriation. To date, management believes the general fund is tracking better than budget due to the unanticipated receipt of a \$2.6 million tax-lien settlement, combined with operating expenditures that remain in line with budget. While the village believes that part of this settlement will be reallocated for a tax certiorari claim, the village will retain sufficient funds to propose establishing a reserve for future tax certioraris.

Standard & Poor's considers Hempstead Village's management practices "standard" under its Financial Management Assessment (FMA), indicating that the finance department maintains adequate policies in most, but not all, key areas.

Following this issuance, and with the inclusion of nearly \$89.3 million in obligations from overlapping governmental units, the village's overall net debt burden will remain moderate at \$2,527 per capita and 4.3% of market value. For fiscal 2008, debt service expenses represented a moderate 8.5% of governmental expenditures. Debt amortization is above average, with 64.5% of outstanding principal retired in 10 years and 100% by 2025. The village has reduced its reliance on the issuance of cash flow notes, which it has not issued since 2006. The village maintains a five-year capital improvement plan that presently totals \$15.0 million through 2013. The plan is projected to be funded largely by GO bonds or notes (\$11.2 million) and estimated contributions from federal and state grants (\$3.8 million).

Outlook

The stable outlook reflects Standard & Poor's expectation that the village's financial profile will continue to strengthen, and that newly implemented financial recovery measures to control spending will support the continued maintenance of more adequate reserve levels. Furthermore, the stable outlook signifies our expectation that the village will closely manage its various enterprise and utility funds so that exposures to the general fund are not created. Further declines in reserve levels, and the continued use of one-time revenues to support operations, would likely pressure the rating downward.

Financial Management Assessment: 'Standard'

Standard & Poor's considers Hempstead Village's management practices "standard" under its FMA, indicating that the finance department maintains adequate policies in most, but not all, key areas. The village's budget monitoring is sound, with quarterly budget-to-actual performance reports presented to both the village council and the State of New York. The village maintains a formal five-year capital improvement plan, updated annually, that includes estimated project costs and projected funding sources. The adopted investment management policy follows state statutes, with performance tracked and reported frequently to the governing council. Currently there is no formal debt management policy in place outside of state limitations on nonelectoral debt levels (10% of AV), and the village lacks a formal reserve policy.

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