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Oyster Bay Plans \$170 Million Sale as Ratings Slide: Muni Credit.

Long Island's Oyster Bay, whose household income is almost double the New York median, had to borrow \$30 million this month to meet payroll. A downgrade to two steps above junk followed, and the rating may go lower.

The former home of U.S. President Theodore Roosevelt, Oyster Bay is depending on cash that may not come to fix its budget for a second straight year. Nassau County is withholding \$14 million in sales taxes due the town in a dispute over college tuition reimbursement.

The town, which has had its credit rating cut eight steps by Standard & Poor's since 2011, plans to sell \$170 million in tax-exempt general obligations today to refinance bonds. Evercore Wealth Management LLC's Howard Cure is among investors who say they're tired of the town's fiscal woes.

"I'm still hesitant about being convinced they have everything under control," said Cure, head of municipal research at New York-based Evercore, which has already sold its Oyster Bay debt. "It has all this wealth and they can't figure out how to balance their budget."

A collection of 18 independently governed villages, Oyster Bay is home to 293,000 residents about 34 miles (55 kilometers) east of New York City. It had a median household income of \$107,620 in 2012, compared with the statewide level of \$57,683, Census data show.

Pension Costs

Its wealth hasn't prevented eight straight years of deficits. Oyster Bay joins municipalities across the nation in being squeezed by rising pension costs and revenue that hasn't recovered from the 18-month recession that ended in 2009.

From 2007 to 2011, Oyster Bay's pension and health-care obligations climbed 21 percent, according to data from state Comptroller Thomas DiNapoli. By contrast, mortgage-tax revenue fell by two-thirds, according to Town Supervisor John Venditto, a Republican.

To maintain services and improve infrastructure, Venditto increased Oyster Bay's debt to \$751 million in 2011 from \$410 million in 2007, making it the state's fifth-largest issuer other than New York City, according to DiNapoli's data. The town's population makes it bigger than Buffalo, New York's second-largest city.

Wider Spreads

Oyster Bay's general obligations have been punished in the \$3.7 trillion municipal market since S&P on July 11 dropped the town two levels to BBB, the second-lowest investment grade. Its rating may go down further if it can't balance its budget, S&P said.

Bonds maturing in March 2017 traded July 21 at a yield 0.65 percentage point more than AAA

munis, the widest since the offering, data compiled by Bloomberg show. Debt due in November 2023 changed hands July 16 with an average spread of 1.34 percentage points, the largest since November.

The town has used bond insurance in the past year to boost ratings. Debt from an April general-obligation sale was backed by Build America Mutual Assurance Co. and securities from February and October offers had insurance from Assured Guaranty Municipal Corp.

Oyster Bay is “not alone in having a wealthy tax base, but not having structurally balanced operations,” Lindsay Wilhelm, an S&P analyst, said in a telephone interview. She cited Nassau County, the state’s wealthiest, as an example.

Nassau’s Woes

A state control board took over the county’s finances in 2011. In the first half of 2014, Nassau had an 8.3 percent drop in sales-tax collections from the prior year, the biggest decrease for any county in the state, Moody’s Investors Service said July 21.

Oyster Bay’s fight with Nassau over payments to the Fashion Institute of Technology in Manhattan shows the county’s fiscal woes trickling down, said Venditto.

“There’s no way the county would owe us this money if they were on proper footing,” Venditto, 65, said by phone.

Tim Sullivan, deputy county executive for finance, said in an e-mail message that Oyster Bay is owed \$14 million from sales-tax revenue. The town could get almost half of the amount by agreeing to pay for its residents who attend FIT.

In New York, counties must pick up a portion of the cost for residents who attend community colleges beyond their borders, and counties are allowed to pass the bill on to their localities. FIT is the only community college that offers four-year and graduate degrees, which makes it more expensive than others.

College Dispute

From 1995 to 2001, the state was picking up the tab. When it stopped, the bill reverted to the counties. Nassau started billing its municipalities for FIT payments in 2010. Oyster Bay says FIT shouldn’t be considered a community college, it doesn’t owe the county for the tuition and it wants its portion of the sales-tax revenue.

“If not for the Nassau County delinquency, we wouldn’t have to borrow at all,” Rob Darienzo, Oyster Bay’s finance director, said in a telephone interview.

In 2012, Oyster Bay sold \$13 million in one-year notes to close a deficit. The same year, it approved a plan to raise property taxes, offer a retirement incentive and implement a wage freeze.

The town’s 2013 budget included \$17 million it expected from a land sale that effectively blocked a mall development to cover the 2012 debt. Though the property was sold for \$32 million after a referendum, Oyster Bay ended 2013 with a deficit, according to S&P.

Venditto said that as long as Nassau County turns over the sales tax cash, “we will be fine.”

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