MOODY'S INVESTORS SERVICE

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New Issue

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Auburn (City of) NY

New Issue – Moody's Downgrades Auburn NY's GOLT to A2

Summary Rating Rationale

Moody's Investors Services has downgraded Auburn, NY's GOLT rating to A2 from A1. Concurrently, we have assigned an A2 to the city's $4.5 million Public Improvement Refunding (Serial) Bonds, 2016 and to its $3.8 million Public Improvement (Serial) Bonds, 2016.

The downgrade to A2 reflects an adequate financial position pressured by a sustained heavy debt burden with elevated fixed costs. The rating also reflects a modest tax base characterized by below-average income levels and high poverty.

Credit Strengths

» Moderately sized, diverse tax base with some government and healthcare presence

Credit Challenges

» Above average debt burden expected to grow

» Elevated fixed costs

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» A trend of structurally balanced operations that do not rely on one-time revenues

» Material reduction in outstanding debt burden

» Significant expansion and diversification of the tax base

Factors that Could Lead to a Downgrade

» Continued structural imbalance leading to draws on reserves

» Material tax base declines or deterioration of demographic profile

Key Indicators

Exhibit 1

Auburn (City of) NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 969,434	$ 975,288	$ 942,500	$ 937,565	$ 981,351
Full Value Per Capita	$ 35,137	$ 35,576	$ 34,422	$ 34,700	$ 36,321
Median Family Income (% of US Median)	83.4%	84.2%	84.2%	84.2%	84.2%
Finances					
Operating Revenue ($000)	$ 30,588	$ 30,729	$ 30,577	$ 31,877	$ 32,445
Fund Balance as a % of Revenues	29.0%	23.5%	14.8%	15.3%	17.7%
Cash Balance as a % of Revenues	37.2%	4.1%	27.4%	33.0%	40.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 57,742	$ 38,809	$ 69,675	$ 78,617	$ 71,684
Net Direct Debt / Operating Revenues (x)	1.9x	1.3x	2.3x	2.5x	2.2x
Net Direct Debt / Full Value (%)	6.0%	4.0%	7.4%	8.4%	7.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.7x	1.3x	1.6x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.2%	4.1%	5.4%	6.2%

2016 Full Value: $987.9 million
Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Moderately Sized Tax Base with Below Average Income Levels

The city of Auburn's moderately sized $988 million tax base, located 25 miles west of the City of Syracuse (A1 stable), continues to show signs of improvement, and city officials expect moderate growth over the medium term. The city is largely residential (65% of assessed value) with a stabilizing government and healthcare commercial component. The city serves as the county seat of Cayuga County (A1) and reports stability across its largest employers, including Auburn Correctional Facility (802 employees) and Auburn Memorial Hospital (851 employees). Auburn's full valuations show signs of improvement with two years of consecutive growth in 2015 and 2016, after two consecutive years of declines, pointing to a possibility of future growth. City officials report various residential development projects throughout the city as well as some commercial development and local businesses expansion.

Wealth and income levels are below average, with median family income at 84.2% of the nation and 76.2% of the state. The poverty rate in the city is high at 19% and full value per capita is low at $36,321.

Financial Operations and Reserves: Sustained Structural Balance Remains Elusive

While the city's financial position is adequate and has improved following two consecutive surpluses, this has been partly achieved through the use of one-time revenues and expenditure savings. Additionally, the city is pressured by a high debt burden. In 2015, the city continued to benefit from its $5 million debt-financed purchase of a co-generation electric facility which allowed it to eliminate a roughly $1 million annual obligation. The city purchased the facility in 2014 and has since managed to grow available operating fund balance from $4.5 million (14.8% of revenue) in 2013 to $5.7 million (17.7% of revenue) in 2015. The two most recent surpluses were partly generated by one-shot items, including the amortization of pension payments in fiscal 2014 and 2015, and the 2015 non-recurring net transfer-in of unexpended capital projects funds of approximately $673,000 into the general fund.

In fiscal 2016, management projects a $700,000 deficit, bringing available fund balance back down to a satisfactory $5 million (15.4% of revenues). The deficit is driven by a $400,000 shortfall in sales tax and the city's self-insured health care costs coming in $300,000 higher than expected. The fiscal 2016-2017 budget benefits from a more conservative sales tax estimation and moving to a health care consortium, which management expects will reduce budgetary fluctuations. The city's primary revenue sources are property taxes

(39% of revenues), sales tax (30%) and state aid (19%). The tax cap, volatile sales tax and stagnant state aid will continue to present challenges to the city's efforts to maintain fund balance.

In the 2017 fiscal year, city management has proposed several measures to strengthen Auburn's financial position and reduce enterprise risk associated with various General Fund supported funds. The Refuse Fund and the Power Utility Fund may no longer require the annual support of $798,000 and $147,000 respectively, as the city plans to raise fees in the Refuse Fund commensurate with self-supporting operations. The Power Utility Fund is on track to break even. The city's ability to implement these measures and maintain fund balance in future years could result in positive rating pressures.

LIQUIDITY

The city's General Fund liquidity is strong with a combined $13.1 million in cash & investments, equivalent to 40.5% of revenues.

Debt and Pensions: Heavy and Growing Debt Burden; Elevated Fixed Costs

The city is expected to maintain its heavy debt burden as it adds modest amounts of debt over the medium term. The city's net direct debt was a high 7.3% of full value, and debt service represents an elevated 9.4% of operating expenditures. We note the city is currently in the process of reviewing a new Public Safety Complex for its police and fire departments, but estimated costs and timing are unavailable. Approximately 63% of the city's general obligation debt (including BANs) sits outside of the General Fund, within other governmental or enterprise funds. Future reviews will continue to monitor the health and the enterprise risk associated with these funds.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization of long-term debt is average at 84.8% retired in 10 years. Approximately 37% of the city's debt is in short term mode (BANs). The city will slowly take out the remainder of the BANs with long term serial bonds as various projects near completion.

DEBT-RELATED DERIVATIVES

The city is not party to any derivative or swap agreements.

PENSIONS AND OPEB

The city participates in the New York State and Local Employees Retirement System "ERS" and the New York State Local Police and Fire Retirement System "PFRS", two multi-employer defined benefit retirement plans sponsored by the State of New York (Aa1 stable). In 2015, Auburn's annually required contribution (ARC) was $3.6 million (11.4% of expenditures). The city's combined adjusted net pension liability for 2015, under Moody's methodology for adjusting reported pension data, was $61 million, or an average 1.89 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.

The city chose to amortize a portion of its projected pension obligation in 2014 and 2015, amounting to approximately $570,000 and $508,000 respectively. Late in fiscal 2015 the city also made a one-time repayment of $750,000 against its amortized pension obligation. Since 2010, state law has allowed municipalities to defer the costs of pensions payments over a ten-year or twelve-year amortization period. The city has no plans to amortize any future contributions.

The OPEB liability is funded on a pay-as-you-go basis, and the city contributed $2.2 million, representing 61.4% of its annual OPEB cost for fiscal 2015.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree health care payments, claim an elevated 27.8% of the city's operating expenditures.

Management and Governance

New York cities have an institutional framework score of "A," or moderate. Revenues are highly predictable, as property taxes are usually the largest revenue source, followed by sales and mortgage taxes, as well as building permit revenue. Cities have a moderate revenue raising ability, as they can increase property tax revenues above the tax cap with a 60% vote of the local legislative body. Expenditures vary across the state but primarily consist of personnel costs, which are moderately predictable. Expenditure reduction ability is low given the presence of strong collective bargaining groups and the Triborough Amendment which enhances collective bargaining powers.

Legal Security

The GOLT debt is secured by a 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

Proceeds from the Public Improvement Refunding (Serial) Bonds, 2016 will be used to refund the city's series 2008A and 2011A issuance. The city expects to achieve net present value savings of approximately $140,000 or 3.31% of refunded principal.

Proceeds from the Public Improvement (Serial) Bonds, 2016 will be used for various public improvements.

Obligor Profile

The City encompasses 8.5 miles in Cayuga County in Central New York . The city's population was 27,381 as of the 2013 census estimate.

Methodology

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

Ratings

Exhibit 2

Auburn (City of) NY

Issue	Rating
Public Improvement (Serial) Bonds, 2016	A2
Rating Type	Underlying LT
Sale Amount	$3,777,593
Expected Sale Date	05/27/2016
Rating Description	General Obligation Limited Tax
Public Improvement Refunding (Serial) Bonds, 2016	A2
Rating Type	Underlying LT
Sale Amount	$4,470,000
Expected Sale Date	05/27/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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