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Auburn (City of) NY

Update to credit analysis

Summary

The City of Auburn (A2), New York's credit profile is supported by a moderately-sized tax base and robust, well-maintained reserves and liquidity. The city's long term liabilities and fixed costs are elevated and will remain elevated as the city continues to pursue citywide capital improvement projects. The city's resident wealth and incomes are below average.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action but could affect the city in fiscal 2021. The city depends on state aid and sales tax revenues for approximately 45.7% of its total revenue. The State of New York is currently experiencing significant declines and delays in sales tax and income tax revenue which, in the absence of federal assistance, will likely result in a decline in state aid to the city in fiscal 2021. Additionally, county sales tax receipts are down over the previous year, possibly leading to revenue shortfalls for the city. The city has implemented a combination of conservative sales tax budgeting and expense cuts to offset reduced revenues. The situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the town changes, we will update the rating and/or outlook at that time.

Credit strengths

» Moderately-sized tax base with fairly stable year over year valuation

» Strong reserves and liquidity maintained for several years

Credit challenges

» Highly leveraged by long term liabilities

» Elevated fixed costs

» Below average resident wealth and incomes

Rating outlook

Moody's does not typically assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

» Growth in tax base and expansion of local economy and

» Improvement in resident wealth and incomes

» Material decrease in long term liabilities and fixed costs

Factors that could lead to a downgrade

» Contraction of the tax base

» Deterioration of reserves and liquidity

» Increased long term liabilities and/or deferment of pension payments

Key indicators

Exhibit 1

Auburn (City of) NY	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$982,540	$987,868	$986,870	$992,665	$1,051,362
Population	27,264	27,101	26,962	26,779	-
Full Value Per Capita	$36,038	$36,451	$36,602	$37,069	-
Median Family Income (% of US Median)	78.9%	79.3%	79.5%	77.7%	-
Finances					
Operating Revenue ($000)	$32,445	$32,795	$32,301	$33,026	$35,938
Fund Balance ($000)	$5,738	$5,807	$6,268	$5,346	$6,401
Cash Balance ($000)	$13,144	$11,532	$11,916	$11,377	$12,610
Fund Balance as a % of Revenues	17.7%	17.7%	19.4%	16.2%	17.8%
Cash Balance as a % of Revenues	40.5%	35.2%	36.9%	34.4%	35.1%
Debt/Pensions					
Net Direct Debt ($000)	$71,684	$79,472	$76,670	$72,262	$79,702
3-Year Average of Moody's ANPL ($000)	$55,911	$65,954	$72,464	$74,544	$72,803
Net Direct Debt / Full Value (%)	7.3%	8.0%	7.8%	7.3%	7.6%
Net Direct Debt / Operating Revenues (x)	2.2x	2.4x	2.4x	2.2x	2.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	5.7%	6.7%	7.3%	7.5%	6.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	2.0x	2.2x	2.3x	2.0x

[1] 2020 total full value $1,046,290,000
Source: Moody's Investors Service, audited financial statements, US Census Bureau

Profile

The City of Auburn encompasses approximately 8.5 square miles in the Central New York region and is located wholly within Cayuga County (A1). The city is approximately 25 miles west of City of Syracuse (A1 stable) and 55 miles east of the City of Rochester (A2 negative).

Detailed credit considerations

Economy and tax base: Moderately-sized tax base in Finger Lakes region

Auburn's tax base is anticipated to remain relatively stable. The city is mostly residential with some commercial and industrial presence. Some of the city's largest employers have a stable institutional presence, such as the Auburn Correctional Facility, Auburn Memorial Hospital and Cayuga County, of which Auburn is the county seat. New development within the tax base is limited.

The city's median family income is very strong, equal to 71.5% and 77.7% of the state and US median respectively. The city's median home value has been fairly stable, increasing 7.9% since 2010; the 2018 median home value was $97,700, equal to 32.3% and 47.7% of the state and US medians respectively.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, retail, oil and gas and international trade sectors could suffer particularly severe impacts. We do not anticipate sector-specific pressures to materially affect Auburn's credit quality.

Financial operations and reserves: Strong reserve position maintained over several years

Auburn's strong reserves and liquidity are expected to remain stable. The city closed fiscal 2019 with $6.4 million in available fund balance equal to 17.8% of operating revenues. Management anticipates fiscal 2020 to be similarly stable based on initial assessments and the receipt of final receivables.

Due to the Coronavirus-driven economic downturn and anticipated sales tax revenue shortfalls, the city budgeted for sales tax decreases on a quarterly basis. The first quarter, beginning July 1, incorporated a 12% decrease over the previous year's receipts, a 9% decrease for the 2nd and 3rd quarters and a 6% decrease in the 4th fiscal quarter. The city has also implemented spending freezes and cutting services to only the most essential to keep the budget lean. The combination of reduced sales tax and expense reductions should largely offset financial pressures from the pandemic but reserve appropriation remains a possibility.

Liquidity

The city's general fund liquidity is strong with a combined $12.6 million in cash and investments representing 35.1% of revenues.

Debt and pensions: Elevated leverage and high fixed costs

Auburn's debt leverage is expected to remain high. The city maintains a formal five-year capital improvement plan that aids in guiding the city's future borrowing needs. While management plans to seek grants and matching funds for its projects, additional borrowing in the near-term to complete its general government and enterprise projects is expected. Future credit reviews will analyze new borrowings and their impact on the city's total leverage. Management plans to adhere to the capital plan and has not reduced any project scope due to Coronavirus.

Legal security

The 2020 bonds, notes and the currently rated debt are secured by the city's general obligation pledge as limited by New York State's Property Tax Cap-Legislation (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Debt structure

All of the city's debt is fixed rate. Principal amortization of long-term debt is average with 81.6% to be retired over the next 10 years. Inclusive of the new issues, approximately 58% of the city's debt is bond anticipation notes.

Debt-related derivatives

The city is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB

The city's pension and OPEB liabilities are manageable at this time, but represent a potential credit challenge in conjunction with the city's high debt leverage. The city participates in two state-sponsored multiple employer cost-sharing pension plans and pension-like single employer length of service award programs (LOSAP) and funds OPEB on a pay-go basis. The table below summarizes the city's 2019 pension and OPEB contributions and unfunded liabilities.

Exhibit 2

	Amount ($ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	35,938		
Reported Unfunded Pension Liability	7,231	20.12%	7.00%
Moody's Adjusted Net Pension Liability	82,230	228.81%	3.83%
Reported Net OPEB Liability	73,768	205.26%	3.44%
Moody's Adjusted Net OPEB Liability	72,749	202.43%	3.51%
Pension Contribution	3,464	9.64%	-
Pension Tread Water Gap	-142	-0.40%	-
OPEB Contribution	1,304	3.63%	-
Net Direct Debt	92,236	256.65%	-
Debt Service	3,355	9.34%	-
Total Fixed Costs	8,123	22.60%	-

[1] A positive pension tread water gap reflects a pension contribution less than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A negative tread water gap reflects a contribution greater than the amount required to keep the unfunded liability from increasing if all assumptions are realized.
Source: Moody's Investors Service, audited financial statements

Favorably, the city's 2019 pension contributions exceeded tread water, the amount required to prevent the unfunded liability from increasing assuming all plan assumptions are realized and made 100% of its 2019 required contribution to the plans, a total of $3.5 million representing 9.6% of operating revenues.. Pension contributions will increase if the return on pension assets is below the currently assumed rate of 7.0%. Sharp declines in equity values over the last several months have made achievement of the assumed return unlikely in the current year.

Unlike pensions, the city's retiree healthcare (OPEB) liability is unfunded given that NYS law does not allow local governments to establish OPEB trusts. Adjusted net OPEB liability is elevated at $72.7 million (202% of operating revenues) with a conservative assumed discount rate of under 3.5%. The city's 2019 OPEB contribution totaled $1.3 million representing 3.6% of operating revenues.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, totaled $8.1 million and represented an elevated 22.6% of operating revenues. Future increases in pension and OPEB contributions could result in higher future fixed costs.

ESG considerations

Environmental

The city is located in an area assessed to have high risk of extreme rainfall and flooding exposure. Historically the city's tax base and facilities have not been materially damaged by weather events.

Social

Auburn's resident population has been declining incrementally year over year. Per the Census Bureau, population in 2018 was 26,779 compared to 27,687 in 2010, a 3.3% decrease. Median age of 39 is very similar to the US median of 38 and proportions of children, working age adults and retirement age residents are similar to US rates as well. The city's poverty rate of 18.1% is slightly higher than the US rate of 14.1%.

Governance

Management has stabilized the city's finances through conservative budgetary practices and maintaining fairly robust reserves.

New York Cities have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before adjusting for exemptions and rollovers). However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 3

Auburn (City of) NY

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$1,046,290	A
Full Value Per Capita	$39,071	A
Median Family Income (% of US Median)	77.7%	A
Finances (30%)		
Fund Balance as a % of Revenues	17.8%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	4.2%	A
Cash Balance as a % of Revenues	35.1%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.8%	A
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	8.8%	Baa
Net Direct Debt / Operating Revenues (x)	2.6x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	7.0%	Baa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.0x	A
	Scorecard-Indicated Outcome	A2
	Assigned Rating	A2

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Source: Moody's Investors Service, audited financial statements, US Census Bureau

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