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New Issue

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Auburn (City of), NY

New Issue - Moody's Assigns A2 to Auburn, NY's $2.7M GOLT Bonds 2017

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to Auburn, NY's $2.7 million Public Improvement (Serial) Bonds, 2017. Moody's maintains an A2 rating on the city's $23.7 million of outstanding general obligation limited tax (GOLT) debt.

The A2 rating reflects an improved financial position that will be pressured by elevated fixed costs associated with heavy debt and pension liabilities. 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

» Heavy debt and pension burdens

» 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

» Established track record of self-supporting Enterprise Funds

Factors that Could Lead to a Downgrade

» Structural imbalance leading to significant draws on reserves

» Material tax base declines or deterioration of demographic profile

Key Indicators

Exhibit 1

Auburn (City of) NY	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 975,288	$ 942,500	$ 937,565	$ 981,351	$ 987,868
Full Value Per Capita	$ 35,274	$ 34,184	$ 34,256	$ 35,994	$ 36,233
Median Family Income (% of US Median)	84.2%	81.6%	83.1%	78.9%	78.9%
Finances					
Operating Revenue ($000)	$ 30,729	$ 30,577	$ 31,877	$ 32,445	$ 32,795
Fund Balance as a % of Revenues	23.5%	14.8%	15.3%	17.7%	17.7%
Cash Balance as a % of Revenues	4.1%	27.4%	33.0%	40.5%	35.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 38,809	$ 69,675	$ 78,617	$ 71,684	$ 79,472
Net Direct Debt / Operating Revenues (x)	1.3x	2.3x	2.5x	2.2x	2.4x
Net Direct Debt / Full Value (%)	4.0%	7.4%	8.4%	7.3%	8.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	1.3x	1.4x	1.7x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.2%	4.1%	4.9%	5.7%	6.7%

2017 Full Valuation (000's) is $986,870
Source: Moody's Investors Service

Recent Developments

Detailed Rating Considerations

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

The city of Auburn's moderately sized $986 million tax base, located 25 miles west of the City of Syracuse (A1 stable), has shown 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). Auburns full valuations have been stable over the past five years, growing at a compound annual rate of 0.2%. 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 78.9% of the nation and 72.4% of the state. The poverty rate in the city is above average at 18% and full value per capita is low at $36,197.

Financial Operations and Reserves: Improved Financial Position; Enterprise Funds will Require Less Support

The city's financial position is sound and will likely stabilize as the city's enterprise funds require lower levels of support. Over the past few years, management implemented various rate and fee increases to reduce the Refuse and Power Utility Fund's reliance on General Fund transfers for operations. In fiscal 2016, the Refuse and Power Utility Fund's received General Fund transfers totaling $1.5 million, or 4.5% of General Fund revenues. This year, management implemented a newly approved Refuse fee to reduce General Fund support. The Power Utility Fund's annual transfers are expected to decline to a manageable $300,000 per year as a result of the closure of a money losing landfill gas-to-electric facility.

Auburn's fiscal 2016 and projected 2017 operating results suggest structural balance will continue. The city broke-even in fiscal 2016 and expects similar results for fiscal 2017; if correct, it would be the third consecutive year of healthy available fund balance levels of $5.8 million, or 17.7% of revenues. Positively, the most recent results are structurally sound whereas fiscal 2014 and 2015 results were partly generated by one-shot items. The one-shots included the amortization of pension payments, and the 2015 non-recurring net transfer-in of unexpended capital projects funds of approximately $673,000 into the general fund.

The city's primary revenue sources are property taxes (39.3% of revenues), sales tax (28%) and state aid (18.3%). The preliminary fiscal 2018 General Fund budget increased 2.1% over the prior year, does not appropriate use of fund balance and it does not raise the property tax levy. The tax cap, volatile sales tax and stagnant state aid will continue to present budgetary challenges.

LIQUIDITY

The city's General Fund liquidity is strong with a combined $11.5 million in cash & investments, equivalent to 35.2% of revenues.

Debt and Pensions: Heavy Pension and Debt Burdens; 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 is a high 8.4% of full value and 2.45 times debt to operating revenues. We note the city is currently in the process of reviewing a new Public Safety Complex for its police and fire departments, estimated to cost $8 to $10 million if approved. Management estimates issuing at least $2 million per year, for the next five years to meet its capital improvement plan. Approximately 64% 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.

Total fixed costs for fiscal 2015, including debt service, required pension contributions and retiree health care payments, claim an elevated 26.9% of the city's operating expenditures.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization of long-term debt is average at 85.3% retired in 10 years. Approximately 38% 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

Auburn's pension burden is high and contributes to the city's high fixed costs. In fiscal 2014 and 2015 the city chose to amortize a portion of its projected annual pension obligation. The city currently has an outstanding amortization balance of $840,072. 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 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 2016, Auburns annually required contribution (ARC) was $3.7 million (11.4% of expenditures). The city's combined adjusted net pension liability for 2016, under Moodys methodology for adjusting reported pension data, was $87.6 million, or an elevated 2.67 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 OPEB liability is funded on a pay-as-you-go basis, and the city contributed $1.9 million, representing 49.4% of its annual OPEB cost for fiscal 2016.

Management and Governance

New York cities, towns and villages have an Institutional Framework score of A, which is moderate compared to the nation. 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. However, this cap can be overriden 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.

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, 2017 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 December 2016. 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, 2017	A2
Rating Type	Underlying LT
Sale Amount	$2,659,300
Expected Sale Date	05/23/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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