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Auburn (City of) NY

Update to credit analysis

Summary

Auburn (A2) is a moderately sized city with a stabilizing tax base challenged by a below-average wealth and income profile. The city's financial position is healthy and much improved following rate and fee increases in its utility funds and the closure of a money losing facility that generated electricity from landfill gas. Debt and pensions are elevated and drive high fixed costs.

Credit strengths

» Moderately sized, diverse tax base with some government and health-care presence

Credit challenges

» Elevated debt and pension burdens

» High fixed costs

Rating outlook

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

Factors that could lead to an upgrade

» A trend of operating surpluses 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

» Operating deficits leading to significant draws on reserves

» Material tax base contraction or deterioration of wealth and income profile

Key indicators

Exhibit 1

Auburn (City of) NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$942,500	$937,565	$981,351	$987,868	$986,870
Population	27,571	27,369	27,264	27,101	27,101
Full Value Per Capita	$34,184	$34,256	$35,994	$36,451	$36,415
Median Family Income (% of US Median)	81.6%	83.1%	78.9%	79.3%	79.3%
Finances					
Operating Revenue ($000)	$30,577	$31,877	$32,445	$32,795	$32,301
Fund Balance ($000)	$4,540	$4,892	$5,738	$5,807	$6,268
Cash Balance ($000)	$8,382	$10,527	$13,144	$11,532	$11,916
Fund Balance as a % of Revenues	14.8%	15.3%	17.7%	17.7%	19.4%
Cash Balance as a % of Revenues	27.4%	33.0%	40.5%	35.2%	36.9%
Debt/Pensions					
Net Direct Debt ($000)	$69,675	$78,617	$71,684	$79,472	$76,670
3-Year Average of Moody's ANPL ($000)	$38,430	$46,003	$55,911	$65,954	$72,464
Net Direct Debt / Full Value (%)	7.4%	8.4%	7.3%	8.0%	7.8%
Net Direct Debt / Operating Revenues (x)	2.3x	2.5x	2.2x	2.4x	2.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	4.1%	4.9%	5.7%	6.7%	7.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.7x	2.0x	2.2x

Source: Moody's Investors Service; City's audited financial statements

Profile

The City encompasses 8.5 miles in Cayuga County in Central New York. The city's population totaled approximately 27,000 as of the 2016 American Community Survey.

Detailed credit considerations

Economy and Tax Base: Moderately sized city with a stabilizing tax base

The city of Auburn's moderately sized $992 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 stabilizing government, health-care and commercial components. The city is 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 have been stable over the past five years, growing at a compound annual rate of 1.0%. 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 79.3% and 72.7% of the national and state medians. At 16.2% the city's poverty rate is consistent with the national rate. Full value per capita is low at $36,629.

Financial Operations and Reserves: Improved utility funds have stabilized the city's financial position

The city's financial position is sound and will remain stable following improvement in the city's utility funds which now require only small subsides. Over the past few years, management has implemented various rate and fee increases to reduce the Refuse and Power Utility Fund's reliance on General Fund transfers (subsidies) for operations. In fiscal 2016, the Refuse and Power Utility Fund's received General Fund transfers totaling $1.5 million representing 4.5% of General Fund revenues. In 2017, the General Fund's transfers out were limited to $576,008 as the Refuse Fund benefitted from a newly implemented refuse fee and the closure of the Power Utility Fund's money losing landfill gas-to-electric facility.

Auburn's projected fiscal 2018 (unaudited) operating results suggest structural balance will continue. While still early to provide definitive results, management believes it closed 2018 with a small surplus. If correct, it would be the third year of structurally balanced operations that did not rely on one-shot items. The previous one-shot items included deferral of pension payments, and transfer-in of unexpended monies from the capital projects fund. The surplus would further improve the city's healthy fund balance level of $6.3 million, representing 19.4% of revenues.

The city's primary revenue sources remain property taxes (38.5% of revenues), sales tax (28.9%) and state aid (18.4%). The fiscal 2019 budget benefits from declines in debt service requirements and overall appropriations decreased 0.5%. The tax levy increased 4.4% over the previous year. The city budgeted sales tax growth of 8.2% over estimated collections in 2018, a larger increase than realized in any recent fiscal year.

LIQUIDITY

The city's General Fund liquidity is strong with a combined $11.9 million in cash & investments representing 36.9% of revenues.

Debt and Pensions: Elevated leverage and high fixed costs

The city's debt burden will remain heavy but stable given the city's policy to limit future general fund debt issuances. The city's net direct debt is high at 7.8% of full value or 2.4 times revenues in fiscal 2017. Management anticipates issuing at least $2 million per year, for the next five years to meet its capital improvement plan. We also note that the city is reviewing a new Public Safety Complex for its police and fire departments, estimated to cost $8 to $10 million if approved. Approximately 42% of the city's general obligation debt (including BANs) is related to the General Fund, while the rest is supported by other governmental or enterprise funds. Future reviews will continue to monitor the health and the risk associated with these funds.

Total fixed costs for fiscal 2017, including debt service, required pension contributions and retiree health care payments, claim an elevated 27.6% of expenditures.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization of long-term debt is average at 80.1% retired in 10 years. Approximately 32% of the city's debt is bond anticipation notes. 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 interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Auburn's unfunded pension burden is above average and contributes to the city's high fixed costs. In fiscal 2014 and 2015 the city chose to defer a portion of its projected annual pension obligation. The city currently has an outstanding deferred pension balance of $614,000. 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 defer 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 2017, Auburn's contribution was $3.7 million (11.8% of expenditures). The city's combined adjusted net pension liability for 2017, under Moody's methodology for adjusting reported pension data, was $68.7 million, or an above average 2.1 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 $2 million, representing 6.4% of expenditures.

Management and Governance

New York cities, villages 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% and 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% and 10% annually.

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