

## CREDIT OPINION

25 May 2017

New Issue

Rate this Research >>

### Contacts

Benjamin Howard-Cooper 212-553-3781  
Associate Analyst  
benjamin.howard-cooper@moodys.com

Robert Weber 212-553-7280  
VP-Senior Analyst  
robert.weber@moodys.com

## City of Watertown, NY

New Issue - Moody's Assigns Aa3 to the City of Watertown, NY's \$5.1M GOLT Bonds

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating on the City of Watertown, NY's \$5.1 million Public Improvement Serial Bonds, 2017. Moody's maintains the Aa3 rating on outstanding parity debt.

The Aa3 rating reflects the city's strong financial reserves that provide stability due to volatile revenue sources. The rating also incorporates the city's elevated but manageable debt burden, and a modestly sized tax base that benefits from the proximity of the Fort Drum United States military base.

### Credit Strengths

- » Solid cash levels and financial reserves
- » U.S. Army base at Fort Drum provides stability to economy and tax base

### Credit Challenges

- » Exposure to volatile revenue sources
- » Below average socio-economic characteristics

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » Significant growth in the underlying tax base
- » Material expansion of financial reserves

### Factors that Could Lead to a Downgrade

- » Inability to return to structurally balanced operations
- » Significant declines in fund balance
- » Material downsizing of operations at Fort Drum

## Key Indicators

Exhibit 1

<b>Watertown (City of) NY</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 1,062,711	\$ 1,146,244	\$ 1,168,685	\$ 1,174,735	\$ 1,178,797
Full Value Per Capita	\$ 39,126	\$ 41,753	\$ 42,359	\$ 43,110	\$ 43,259
Median Family Income (% of US Median)	81.4%	78.7%	80.0%	75.9%	75.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 38,829	\$ 42,255	\$ 39,836	\$ 40,258	\$ 41,690
Fund Balance as a % of Revenues	34.0%	30.7%	34.5%	35.6%	33.3%
Cash Balance as a % of Revenues	31.1%	39.0%	42.5%	40.2%	35.3%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 21,018	\$ 15,723	\$ 14,452	\$ 32,522	\$ 35,755
Net Direct Debt / Operating Revenues (x)	0.5x	0.4x	0.4x	0.8x	0.9x
Net Direct Debt / Full Value (%)	2.0%	1.4%	1.2%	2.8%	3.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.5x	1.0x	1.3x	1.7x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	2.0%	3.6%	4.5%	5.7%	6.4%

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Moderately Sized Tax Base Supported by Fort Drum Army Base

The city's \$1.2 billion tax base relies heavily on government and military presence. Wealth levels in the city are below average, with the 2015 median family income equal to 76% of the US median. Offsetting the below average wealth is the stabilizing presence of the Fort Drum military base. Although not located within the city limits, Fort Drum is located 7 miles from the city center, and houses 42% of those soldiers living off post. An estimated 15,069 soldiers and 3,785 civilians were employed at Fort Drum as of fiscal 2014. The base is also a major customer for the city's water and sewer operations.

Government is the largest employer in the city. Federal, state, and county government entities have offices in Watertown, which is the county seat. Other large employers in the city include the Samaritan Medical Center, which employs over 2,500 people, as well as various manufacturers. The city's unemployment rate of 5.7% as of March 2017 was above the state (4.4%) and US (4.6%).

Measures of property wealth are very below average. Full value per capita is equal to \$42,389, which is well below the median for New York cities. However, this is largely due to the considerable amount of tax-exempt property within the city (approximately 31%). Despite being below average for this rating category, the tax base is healthy and has been growing.

### Financial Operations and Reserves: Strong Reserve Levels Provide Buffer Against Volatile Revenues

The city's financial position remains solid despite reserve draws in three of the last six years. While the base provides some stability in the city's sales tax revenues (43% of 2016 revenues), a strengthening US dollar has reduced the amount of cross border traffic with Canada. Recent trends have demonstrated stagnating or declining sales tax revenues. However, due to Jefferson County raising the sales tax rate from 3.75% to 4%, the City expects sales tax collections to increase around 5% in fiscal 2017 over the previous year. Management reports that year to date the city's sales tax collections are underperforming by less than 1% of budgeted revenues. After sales tax, the largest revenue sources are property tax (21% of 2016 revenues) and state aid (13.6%). To balance stagnant sales tax revenues and state aid, management raised property taxes each year, including multiple years where they pierced the property tax cap. Sales of hydroelectricity (9.6% of revenues) are entirely dependent on the flows of the Black River, which are difficult to predict.

The city finished fiscal 2016 with a \$488,000 General Fund operating deficit balance due primarily to underperforming sales tax. However, the budget originally called for a \$1.9 million use of fund balance, but due to positive variance on expenditures, the city

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

was able to replenish a portion of the appropriation. The city ended the fiscal year with \$13.9 million in available fund balance, or a significant 33.3% of revenues. The higher than average fund balance provides a cushion for the city against volatile revenue structure.

Management projects fiscal 2017 will end with a \$250,000 surplus, leading to an equivalent growth in reserves. The positive results were driven by underspending in the snow removal budget in addition to other expenditure items.

For fiscal 2018, the city's proposed budget includes a 1.8% spending increase and a 4% tax levy increase, which is above the state tax cap. The 2018 budget was balanced with \$1 million use of reserves. Utilizing the full budgeted appropriation would bring total fund balance to \$14.5 million, assuming fiscal 2017 ends with the expected growth in reserves. We will monitor the city's ability to maintain strong reserves going forward. A deviation from the fund balance estimates above could result in negative rating action.

#### LIQUIDITY

The city's cash position as of fiscal 2016 was healthy at \$14.7 million, or 35.3% of revenues.

#### Debt and Pensions: High but Manageable Debt Burden

The direct debt burden, at 3.3% of full value, is relatively high for the rating category and is expected to remain elevated due to ongoing capital needs. Within the next year, the city anticipates borrowing approximately \$10 million for street reconstruction and improvements to the city's courts. The city's debt service is manageable at 7.2% of 2016 operating expenditures.

#### DEBT STRUCTURE

All of Watertown's debt is fixed rate.

#### DEBT-RELATED DERIVATIVES

The city is not party to any derivative agreements.

#### PENSIONS AND OPEB

The city participates in the New York State and Local Employees Retirement System (ERS), and the New York State and Local Police and Fire Retirement System (PFRS), multi-employer, defined benefit retirement plans sponsored by the State of New York (Aa1/stable outlook). The three year average combined net pension liability, under Moody's methodology for adjusting reported pension data, is \$76 million, or an average 1.82 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state administered plans in proportion to its contributions to the plans.

#### Management and Governance

The city's management has employed conservative budgeting practices that have resulted in healthy financial reserve levels. Further, the City Council has demonstrated a willingness to override the state imposed tax cap if financial conditions warrant such action.

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 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.

#### Legal Security

The bonds are 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

Bond proceeds will be used to support various public improvement projects in the City, including sidewalk repairs and various equipment purchases.

## Obligor Profile

The city of Watertown has an estimated 2015 population of 27,250 and is located in the northern part of New York State (Aa1 stable), eleven miles east of Lake Ontario and twenty-two miles south of the St. Lawrence River (and Canadian border).

## 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.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Watertown (City of) NY

Issue	Rating
Public Improvement (Serial) Bonds, 2017	Aa3
Rating Type	Underlying LT
Sale Amount	\$5,130,000
Expected Sale Date	06/01/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody's.com](http://www.moody's.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## Contacts

Benjamin Howard-  
Cooper  
*Associate Analyst*  
benjamin.howard-cooper@moody's.com

212-553-3781

Robert Weber  
*VP-Senior Analyst*  
robert.weber@moody's.com

212-553-7280

## CLIENT SERVICES

Americas

1-212-553-1653

Asia Pacific

852-3551-3077

Japan

81-3-5408-4100

EMEA

44-20-7772-5454