

**OFFICIAL STATEMENT**

**NEW ISSUES: SERIAL BONDS  
BOOK-ENTRY-ONLY  
NOT BANK QUALIFIED**

**MOODY'S RATING: "Aa3"  
See "Ratings" herein**

*In the opinion of Norton Rose Fulbright US LLP, New York, New York, Bond Counsel, assuming continuous compliance with certain covenants described herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, and interest on the Bonds will not be subject to the alternative minimum tax on individuals. In the further opinion of Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York). See "TAX MATTERS" herein for a description of the opinion of Bond Counsel and certain other tax consequences.*

*The Bonds will not be designated by the City as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.*

**CITY OF WATERTOWN  
JEFFERSON COUNTY, NEW YORK**

**GENERAL OBLIGATIONS**

**\$10,000,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES A**

**DATED: JUNE 25, 2015**

**DUE: JUNE 15, 2016-2040**

**(as shown on inside cover)**

**(the "Series A Bonds")**

**\$5,810,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES B**

**DATED: JUNE 25, 2015**

**DUE: JUNE 15, 2016-2030**

**(as shown on inside cover)**

**(the "Series B Bonds")**

**(the Series A Bonds and Series B Bonds combined herein referred to as the "Bonds")**

The Bonds are general obligations of the City of Watertown, Jefferson County, New York. All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount, subject to the statutory limitations imposed by Chapter 97 of the Laws of 2011 (see "Tax Increase Procedural Limitation Legislation" herein).

Interest on the Bonds will be payable semi-annually on June 15 and December 15 of each year until maturity, commencing on June 15, 2016. The Bonds are subject to redemption prior to maturity as described herein.

The Bonds will be issued in registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company New York, New York ("DTC"), which will act as securities depository for the Bonds. Individual purchases will be made in book-entry-only form, in denominations of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Principal and interest on the Bonds will be paid by the City of Watertown to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein.

*The Bonds are offered when, as and if issued and received by the purchaser and subject to the receipt of the unqualified legal opinions as to the validity of the Bonds of Norton Rose Fulbright US LLP, Bond Counsel. It is anticipated that the Bonds will be available for delivery through the facilities of DTC in Jersey City, New Jersey on or about June 25, 2015.*

June 17, 2015

THE CITY WILL COVENANT IN AN UNDERTAKING TO PROVIDE CONTINUING DISCLOSURE AS DEFINED IN THE RULE WITH RESPECT TO THE BONDS (SEE "CONTINUING DISCLOSURE UNDERTAKING" HEREIN).

**\$10,000,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES A**

**DATED: JUNE 25, 2015**

**DUE: JUNE 15, 2016-2040**

MATURITIES

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2016	\$265,000	3.00%	0.50%	9420955H9	2028	\$385,000*	3.25%	3.11%	9420955V8
2017	265,000	3.00	0.80	9420955J5	2029	400,000*	3.50	3.18	9420955W6
2018	270,000	3.00	1.25	9420955K2	2030	415,000*	3.50	3.25	9420955X4
2019	280,000	3.00	1.52	9420955L0	2031	430,000*	3.50	3.31	9420955Y2
2020	285,000	3.00	1.79	9420955M8	2032	445,000*	3.50	3.36	9420955Z9
2021	300,000	3.00	2.05	9420955N6	2033	465,000*	3.50	3.41	9420956A3
2022	310,000	3.00	2.29	9420955P1	2034	480,000*	3.50	3.45	9420956B1
2023	320,000	3.00	2.45	9420955Q9	2035	500,000*	3.50	3.49	9420956C9
2024	335,000	3.25	2.62	9420955R7	2036	515,000*	3.50	3.53	9420956D7
2025	345,000*	3.25	2.79	9420955S5	2037	535,000*	3.50	3.57	9420956E5
2026	360,000*	3.25	2.92	9420955T3	2038	555,000*	3.50	3.61	9420956F2
2027	370,000*	3.25	3.02	9420955U0	2039	575,000*	3.50	3.65	9420956G0
					2040	595,000*	3.50	3.68	9420956H8

\*Subject to redemption prior to maturity as described herein.

**\$5,810,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES B**

**DATED: JUNE 25, 2015**

**DUE: JUNE 15, 2016-2030**

MATURITIES

<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>	<u>Maturity</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>CUSIP</u>
2016	\$435,000	2.00%	0.55%	9420956J4	2024	\$375,000	3.000%	2.65%	9420956S4
2017	425,000	2.00	0.95	9420956K1	2025	375,000*	3.000	2.77	9420956T2
2018	425,000	2.00	1.30	9420956L9	2026	375,000*	3.000	2.90	9420956U9
2019	425,000	2.00	1.55	9420956M7	2027	375,000*	3.000	3.00	9420956V7
2020	425,000	2.00	1.80	9420956N5	2028	350,000*	3.000	3.10	9420956W5
2021	375,000	2.00	2.05	9420956P0	2029	350,000*	3.000	3.20	9420956X3
2022	375,000	3.00	2.28	9420956Q8	2030	350,000*	3.125	3.30	9420956Y1
2023	375,000	3.00	2.45	9420956R6					

\*Subject to redemption prior to maturity as described herein.

## **CITY OFFICIALS**

JEFFREY E. GRAHAM  
Mayor

## **CITY COUNCIL**

ROXANNE M. BURNS  
JOSEPH M. BUTLER JR.

STEPHEN A. JENNINGS  
TERESA R. MACALUSO

SHARON ADDISON  
City Manager

JAMES E. MILLS  
City Comptroller

ANN SAUNDERS  
City Clerk

NORTON ROSE FULBRIGHT US LLP  
New York, New York  
Bond Counsel

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## **FINANCIAL ADVISOR**



CAPITAL MARKETS ADVISORS, LLC  
Hudson Valley \* Long Island \* New York City \* Southern Tier \* Western New York  
(516) 364-6363

No dealer, broker, salesman or other person has been authorized by the City of Watertown to give any information or to make any representations not contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy any of Bonds in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The information, estimates and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City of Watertown.

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**APPENDIX E – FORM OF BOND COUNSEL OPINIONS**

**OFFICIAL STATEMENT  
of the  
CITY OF WATERTOWN  
JEFFERSON COUNTY, NEW YORK**

**Relating To**

**\$10,000,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES A  
and  
\$5,810,000 PUBLIC IMPROVEMENT (SERIAL) BONDS, 2015 SERIES B**

This Official Statement (the “Official Statement”), which includes the cover page and appendices hereto, has been prepared by the City of Watertown, Jefferson County, New York (the “City,” “County” and “State,” respectively), in connection with the sale by the City of \$10,000,000 Public Improvement (Serial) Bonds, 2015 Series A (the “Series A Bonds”) and \$5,810,000 Public Improvement (Serial) Bonds, 2015 Series B (the “Series B Bonds”) (collectively hereinafter referred to as the “Bonds”).

**DESCRIPTION OF THE BONDS**

The Bonds are general obligations of the City, and will contain a pledge of its faith and credit for the payment of the principal of and interest on the Bonds as required by the Constitution and laws of the State of New York (State Constitution, Art. VIII, Section 2; Local Finance Law, Section 100.00). All the taxable real property within the City is subject to the levy of ad valorem taxes to pay the Bonds and interest thereon, without limitation as to rate or amount, subject to the statutory limitation imposed by Chapter 97 of the Laws of 2011. See “Tax Increase Procedural Limitation Legislation” herein.

The Bonds will be issued in registered form, and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Bonds. Individual purchases will be made in book-entry form only, in the principal amount of \$5,000 or integral multiples thereof. Purchasers will not receive certificates representing their ownership interest in the Bonds. Interest on the Bonds will be payable June 15 and December 15 in each year until maturity, commencing June 15, 2016. Principal and interest will be paid by the City to DTC, which will in turn remit such principal and interest to its Participants, for subsequent distribution to the Beneficial Owners of the Bonds, as described herein. The Record Date for the Bonds is the last business day of the calendar month preceding each interest payment date. The Bonds will be subject to redemption prior to maturity as described herein.

**Purpose of the Bond Issues**

The Bonds are issued pursuant to the Constitution and statutes of the State of New York, including, among others, the General City Law and the Local Finance Law, for the following purposes and in the following amounts:

Series A Bonds:

<u>Purpose</u>	<u>Amount</u>
Design and reconstruction and expansion of the Fairgrounds Arena	\$10,000,000
	<u>\$10,000,000</u>

Series B Bonds:

<u>Purpose</u>	<u>Amount</u>
Factory Street Reconstruction	\$2,700,000
Design and installation of a new parallel transmission main to the Thompson Park reservoirs	925,000
Environmental clean-up and debris removal projects at Ogilvie site	210,000
Wastewater Treatment Plant Disinfection System	200,000
Wastewater Treatment Plant – Filter Distributor Assemblies replacement	600,000
Rehabilitation of Thompson Park Water Tank	975,000
Phase II of the Dosing Station Downstream Dam	200,000
	<u>\$5,810,000</u>

The proceeds of the Bonds will provide new monies for the above listed purposes.

## **Optional Redemption**

The Bonds maturing on or before June 15, 2024 will not be subject to redemption prior to maturity. The Bonds maturing on or after June 15, 2025 will be subject to redemption prior to maturity, at the option of the City, on June 15, 2024 and thereafter on any date, as a whole or in part, and if in part in any order of their maturity and in any amount within a maturity (selected by lot within a maturity) as may be determined by the City, at the price equal to the par principal amount, plus accrued interest to the date of redemption.

If less than all of the Bonds on any maturity are to be redeemed, the particular bonds of such maturity to be redeemed shall be selected by the City in any customary manner of selection as determined by the Comptroller of the City. Notice of such call for redemption shall be given by mailing such notice to the registered holder not more than sixty (60) days nor less than thirty (30) days prior to such date. Notice of redemption having been given as aforesaid, the Bonds so called for redemption shall, on the date for redemption set forth in such call for redemption, become due and payable, together with interest to such redemption date, and interest shall cease to be paid thereon after such redemption date.

## **Nature of Obligation**

Each Bond when duly issued and paid for will constitute a contract between the City and the holder thereof.

The Bonds will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Bonds, the City has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to certain statutory limitations imposed by the Tax Levy Limit Law. See “Tax Increase Procedural Limitation Legislation” and “Enforcement of Remedies Upon Default,” herein.

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Bonds, and the State is specifically precluded from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limit Law imposes a statutory limitation on the City’s power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limit Law. See “Tax Increase Procedural Limitation Legislation,” herein.

## **Book-Entry-Only System**

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, and will be deposited with DTC.

DTC, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by the Direct Participant in accordance with DTC's Money Market Instruments Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer believes to be reliable, but the Issuer takes no responsibility for the accuracy thereof.

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Source: The Depository Trust Company, New York, New York.

### **Certificated Bonds**

DTC may discontinue providing its services with respect to the Bonds at any time by giving notice to the City and discharging its responsibilities with respect thereto under applicable law, or the City may terminate its participation in the system of book-entry-only transfers through DTC at any time. In the event that such book-entry-only system is discontinued, the following provisions will apply: such Bonds will be issued in fully registered form in denominations of \$5,000 each or any integral multiple thereof. Principal of the Bonds when due will be payable upon presentation at the office of the City

Clerk, as fiscal and paying agent for the Bonds, or, at the option of the City, at a bank or trust company located and authorized to do business in the State to be named as fiscal agent by the City upon termination of the book-entry-only system. Interest on the Bonds will remain payable semi-annually on June 15 and December 15 of each year until maturity, commencing on June 15, 2016. Such interest will be payable by check drawn on the fiscal agent and mailed to the registered owner on each interest payment date at the address as shown on the registration books of the fiscal agent. The Record Date of the Bonds will remain the last business day of the calendar month preceding each such interest payment date. Bonds may be transferred or exchanged at no cost to the registered owner at any time prior to maturity at the office of the fiscal agent for Bonds of the same or any other authorized denomination or denominations in the same aggregate principal amount upon the terms set forth in the Certificate of Determination of the City Comptroller authorizing the sale of the Bonds and fixing the details thereof and in accordance with the Local Finance Law. The fiscal agent shall not be obligated to make any such transfer or exchange of Bonds between the Record Date preceding an interest payment date and such interest payment date.

## **MARKET FACTORS AFFECTING FINANCINGS OF THE STATE AND MUNICIPALITIES OF THE STATE**

The financial condition of the City as well as the market price of and the market for the Bonds could be affected by a variety of factors, many of which are beyond the City's control, including, for example: (i) certain adverse events in the domestic and world economy; (ii) a significant default or other financial crisis occurring in the affairs of the State or its agencies or political subdivisions; and (iii) a seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code. These events may affect the acceptability of obligations issued by borrowers within the State or the ability of the City to arrange for additional borrowings. In addition, the market for and the market value of the Bonds could be adversely affected if the City encountered real or perceived difficulty in marketing Bonds or Bonds to pay principal on the Bonds at maturity. The City, like other issuers, is dependent on the orderly functioning of the municipal debt markets to refinance existing debt coming due, and could be unable to pay the Bonds at maturity if market access proved unavailable.

The City is dependent in part on financial assistance from the State. If the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes and revenues in order to pay State aid to municipalities and school districts in the State, the City may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State in order to make State aid payments to the City. If for any reason the City anticipates not receiving payment of such State aid as needed, the City is permitted by the Local Finance Law to provide operating funds by borrowing in anticipation of the receipt of any uncollected State aid. The State is not constitutionally obligated to maintain or continue State aid to the City. Accordingly, no assurance can be given that present State aid levels will be maintained in the future. The elimination of or any substantial reduction in State aid would have a materially adverse effect upon the City requiring either a counterbalancing increase in revenues from other sources to the extent available or a curtailment of expenditures. (See also "State Aid")

Additionally, if in any year the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the City, may be affected by a delay in the payment of State Aid.

The State is not constitutionally obligated to maintain or continue State Aid to the City. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State Aid reductions are likely. State budgetary restrictions which eliminate or substantially reduce State Aid could have a material adverse effect upon the City, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures. The State's Annual Information Statement is updated quarterly by the State and may be obtained from the New York State Division of the Budget, which makes that and other information available through its website.

## **ANNUAL AND CONTINUING DISCLOSURE UNDERTAKING**

In accordance with the requirements of Rule 15c2-12 as the same may be amended or officially interpreted from time to time (the "Rule") promulgated by the Securities and Exchange Commission (the "Commission"), the City has agreed to provide, at the time of delivery of the Bonds, an executed Annual and Continuing Disclosure Undertaking in substantially the form attached as Appendix D.

On September 19, 2014, the City filed a material event notice with EMMA regarding the change to the underlying rating of the City by Moody's Investors Service, as a result of the recalibration of the U.S. municipal ratings from a municipal scale



to the global scale in 2010, which resulted in a recalibrated rating of “A1”. As this was a system wide recalibration by Moody’s, and not considered an upgrade, a material event notice was not filed at the time.

On September 22, 2014, the City filed a material event notice with EMMA regarding the current ratings of the bond insurer of past bonds issued by the City. Since the fall of 2008, there have been over forty ratings actions on bond insurers by Moody’s, Standard and Poor’s (S&P) and Fitch Ratings (Fitch). Due to widespread knowledge of the downgrades to the bond insurer, material event notices were not filed in each instance.

In certain years, the City has filed its annual financial information and audited financial statements later than sixty days following the receipt of the audited financial statements for the preceding fiscal year but within the twelve months following the close of a preceding fiscal year filing requirement. The City was late in filing its annual financial information as well as its audited financial statements for fiscal year ended June 30, 2011. For the last three reporting periods for fiscal years ending June 30, 2012, June 30, 2013 and June 30, 2014, the City was timely in all of its filing requirements.

The City has reviewed and modified its continuing disclosure practices and procedures to ensure that all material event notices are filed in a timely manner and has also corrected any past failures to file.

Other than as discussed above, the City is in compliance in all material aspects with all previous undertakings made pursuant to Rule 15c2-12 during the last five years.

## **LITIGATION**

The City is subject to a number of lawsuits in the ordinary conduct of its affairs. The City does not believe, however, that such suits, individually or in the aggregate, are likely to have a material adverse effect on the financial condition of the City.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate (the “Tax Certificate”) dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Tax Certificate subsequent to the issuance of the Bonds. The Tax Certificate contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures

the IRS is likely to treat the City as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

In the opinion of Bond Counsel, under existing law interest on the Bonds is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

Except as described above, Bond Counsel expresses no opinion with respect to any federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change so as to reduce or eliminate the benefit to holders of the Bonds of the exclusion of interest thereon from gross income for federal income tax purposes. Proposed legislative or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed changes in tax law.

#### **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income. Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds.

The purchase price of certain Bonds (the “Premium Bonds”) paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a

sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by a purchaser is determined by using such purchaser's yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

### **LEGAL MATTERS**

The legality of the authorization and issuance of the Bonds will be covered by the unqualified legal opinions of Norton Rose Fulbright US LLP, New York, New York. Such legal opinions will be delivered in substantially the form attached hereto as "Appendix E-1", and "Appendix E-2".

### **RATING**

Moody's Investors Service, Inc. (Moody's) has assigned the Bonds the rating of Aa3. The City currently has underlying ratings of Aa3 from Moody's. Such ratings reflect only the view of such organizations and an explanation of the significance of such ratings may be obtained from such rating agencies as follows: Moody's Investors Service, Inc., 7 World Trade Center and 250 Greenwich Street, Public Finance Group – 23rd Floor, New York, New York 10007, (212) 553-0300. There is no assurance that such ratings will continue for any given period of time or that one or more ratings will not be revised downward or withdrawn entirely by the rating agency that issued it, if, in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

### **FINANCIAL ADVISOR**

Capital Markets Advisors, LLC has acted as Financial Advisor to the City in connection with the sale of the Bonds.

In preparing the Official Statement, the Financial Advisor has relied upon governmental officials, and other sources, who have access to relevant data to provide accurate information for the Official Statement, and the Financial Advisor has not been engaged, nor has it undertaken, to independently verify the accuracy of such information. The Financial Advisor is not a public accounting firm and has not been engaged by the City to compile, review, examine or audit any information in the Official Statement in accordance with accounting standards. The Financial Advisor is an independent advisory firm and is not engaged in the business of underwriting, trading or distributing municipal securities or other public securities and therefore will not participate in the underwriting of the Bonds.

### **MISCELLANEOUS**

Any statements made in this Official Statement and indicated to involve matters of opinion or estimates are represented to be opinions or estimates in good faith. No assurance can be given, however, that the fact will materialize as so opined or estimated. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the holders of the Bonds.

Except for its review of the descriptions of the terms of the Bonds and its approving legal opinion to be rendered on the Bonds as Bond Counsel to the City, Norton Rose Fulbright US LLP, New York, New York, has not participated in the preparation of this Official Statement, nor verified the accuracy, completeness or fairness of the information contained herein, and accordingly, expresses no opinion with respect thereto.

Capital Markets Advisors, LLC Corporation may place a copy of this Official Statement on its website at [www.capmark.org](http://www.capmark.org). Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Capital Markets Advisors, LLC has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original sourced documents to digital format, and neither the City nor Capital Markets Advisors, LLC assumes any liability or responsibility for errors or omissions on such website. Further, Capital Markets Advisors, LLC and the City disclaims any duty or obligation either to update or to maintain the information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Capital Markets Advisors, LLC and the City also assume no liability or responsibility for any errors or omissions or for any updates to dated website information.

Additional information may be obtained upon request from the office of the City Comptroller, James E. Mills, 245 Washington Street, Room 203, Watertown, New York at (315) 785-7754; or from the office of Capital Markets Advisors, LLC, at (516) 364-6363, as financial advisor to the City.

The Official Statement has been duly executed and delivered by the City Comptroller of the City of Watertown.

**CITY of WATERTOWN**

**Dated: Watertown, New York  
June 17, 2015**

**JAMES E. MILLS  
City Comptroller**

**APPENDIX A**

**THE CITY**

## THE CITY

### General Information

The City or “Watertown” is located in the northern part of New York State, eleven miles east of Lake Ontario and twenty-two miles south of the St. Lawrence River (and Canadian border). The City encompasses an area of approximately nine square miles. With a 2010 census population figure of 27,023, it is the largest population center in Jefferson County.

Watertown is the county seat. This has led to it being the region’s government and legal center. The federal, state, county and city governments have offices here. Federal Court, State Supreme Court, County and Family Court, and City Court also have chambers here. There are more than 40 law firms located within the City.

County-wide, the largest industry sectors, as measured by the number of civilian employees, are government (23%), wholesale/retail trade (24%), and services (23%). Manufacturing represents 10% of the employment.

Nearly a quarter of the government employees work at Fort Drum (see “Fort Drum” herein). Most of the remaining employees work in offices in downtown Watertown.

While no single wholesale/retail trade employer makes the list of major employers, in total they are significant employers in the area. Their primary location has shifted over the last 20 years from downtown Watertown to near Interstate Route 81.

Over half of the service employees work in the health and social fields. Watertown is the center for health service providers in the “North Country”, with one hospital, two major nursing homes, an outpatient facility, a cancer treatment center, a Veterans Administration Center and a mental health treatment facility. There are more than 50 physician’s and 20 dentist’s offices within the City.

Manufacturers within the City make specialty paper products, railroad/subway brakes, electric motors and irrigation systems.

While it only represents 3.2% of the county’s employment, the finance, insurance and real estate sector is important to Watertown. The City has two commercial banks, one savings bank, one savings and loan, and four credit unions, plus branch facilities. There are two insurance companies in Watertown and more than 30 insurance agencies.

On a county-wide basis, agriculture is an important sector. While it employs less than 4% of the workers, it has had sales of approximately \$77,000,000 per year.

Transportation needs to and from the area are served by Interstate Route 81 and Watertown International Airport. Watertown is served by one independent bus line and several interstate trucking firms. CSX provides rail freight service. Within Watertown, the City operates a fleet of four public buses and provides paratransit services.

Ownership of the Watertown International Airport was transferred to Jefferson County on March 1, 2006. In exchange for the County taking ownership, the City agreed to amend the sales tax distribution agreement. Prior to the amended distribution agreement the City received 28% of the 3.0% County sales tax. Between September 2004 and November 2008 the City continued to receive 28% of the 3.0% County sales tax and incrementally received a portion of the 0.75% increase to the County sales tax rate. Effective December 1, 2008 the City began receiving 24% of the total 3.75% County sales tax. The County agreed to fund the payment of certain outstanding City debt issued for airport purposes.

The City maintains its own police and fire protection. Electricity and natural gas are furnished by National Grid (formerly Niagara Mohawk Power Corp.). Major telecommunication services are provided by Verizon.

### Fort Drum

Since activation of the 10<sup>th</sup> Mountain Division at Fort Drum in 1984, the military-related population in the area has grown to around 35,652. Based upon the Economic Impact Statement for fiscal year 2014, 17,269 soldiers and 3,799 civilians were employed at Fort Drum for a combined annual payroll of \$1,097,932,912. The Soldiers have an additional 18,383 family members. Approximately 1/3 of the total military-related population live on Fort Drum with the remainder

scattered among the various jurisdictions within 30 miles of the base. The City, as an urban center located only 7 miles from the Fort, houses 42% of those Soldiers living off post. The Economic Impact Statement for fiscal year 2014 indicates that Fort Drum’s economic impact on the tri-county area for 2013 was \$1,298,737,921.

In May 2004, the Army announced that the 10<sup>th</sup> Mountain Division would receive a third brigade and convert the two existing brigades to Brigade Combat Teams. Collectively this generated an increase of 8,000 additional Soldiers at Fort Drum. Fort Drum sustained no losses due to the 2005 Base Realignment and Closure decisions. In June 2013 the Army announced that the 3<sup>rd</sup> Brigade Combat Team of the 10<sup>th</sup> Mountain Division will be inactivated by 2017 as part of an Army reorganization plan to reduce the number of active-duty soldiers by 80,000. The Army expects additional maneuver battalions to be assigned to the remaining brigades resulting in an overall net loss of soldiers to Fort Drum between 1,500 and 2,000 soldiers.

The Army has privatized the on-post family housing, under the Residential Community Initiative. The project company, Mountain Community Homes, has built 1,586 new homes, 192 rental apartments for unaccompanied senior NCOs and officers, and renovated all of the existing 2,249 older homes on Fort Drum. This construction and renovation was completed in 2011 and cost approximately \$513,000,000.

The FY 2011 Military Construction Appropriations Bill contains \$252,000,000 in projects at Fort Drum. These construction projects include a new campus for the Air Force 20<sup>th</sup> ASOS detachment, a Training Support Center, hangar expansion for 3-10 AVN, phase 1 of the Organizational Readiness Training Center, aircraft fueling system upgrades, two barracks, several troop unit administrative facilities, vehicle maintenance shop, an infantry squad battle course and a solar wall energy project. In addition during FY 2011 the NY Air National Guard is building a \$5,000,000 facility to support their MQ9 Reaper unmanned aircraft operations. The FY 2012 Military Construction Appropriations Bill contains \$13,300,000 in projects including an ammunition supply point expansion and a chapel expansion.

The FY 2013 Military Construction Appropriations Bill funded \$95 million for an aircraft hangar, \$17.3 million for a soldier specialty care unit and \$25.9 million for a data terminal complex for the Missile Defense Agency. No construction was funded in FY 2014 or FY 2015. Currently there are five Military Construction (MILCON) projects scheduled to occur from FY 2014 through FY 2019 amounting to approximately \$66 million. These include the NYANG Reaper hangar expansion, the Gray Eagle hangar, the Air Support Operation Center, the Training Aids Center expansion and the NCO Academy. The Army’s Facility Investment Strategy has shifted to sustaining and/or repurposing existing facilities to meet mission requirements rather than building new.

**Housing Development**

The following is a table listing the various types of housing built within the City in a recent 10 year period.

<u>Housing Type</u>	<u>Units Built</u>
Senior Citizens	14
Single Family Home	58
Multi-family	<u>325</u>
Total	397

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Source: Annual Building Permit Reports, 2005-2014. Does not include on-post housing noted above.

## Larger Employers

The following are major employers located within the City.

<u>Name</u>	<u>Type</u>	<u>Approximate # of Employees</u>
Samaritan Medical Center/Keep Home	Hospital/Nursing Home/Health Services	2,500
Watertown City School District	Primary Education	836
Jefferson County	Government Services	815
Jefferson Rehab. Center	Services for Disabled	639
Convergys	Customer Relationship Management Services	619
New York Air Brake Company	Manufactures air brakes for freight and passenger railroad cars, hydraulic pumps and motors for aircraft and missiles	540
State of New York	Government Services	359
City of Watertown	Government Services	325
Johnson News Corporation	Daily News Papers - Job Printing	253
Watertown Family YMCA	Recreational and Childcare	249
Jefferson Community College	Post-secondary Education	247
Scholastic Structures	Manufacturing	230
Purcell Construction	Construction	140
Knowlton Technologies, LLC	Manufacturing	130
Guilfoyle Ambulance Service	Healthcare	123
Stebbins Engineering & Manufacturing Co.	Manufacturing	110
Bernier Carr & Associates	Engineering and architecture firm	104
Renzi Brothers	Distribution	95
North Country Children's Clinic	Health Services	93
Millennium Development, LLC	Hospitality	89
Cornell Cooperative Extension	Education	85
Statur Electric	Manufacturers Fractional Power Motors	80

Source: Jefferson County Job Development Corporation as of December 19, 2014.

## Population Trends

	<u>City of Watertown</u>	<u>Jefferson County</u>	<u>New York State</u>
1970	30,787	88,508	18,236,882
1980	27,861	88,151	17,558,072
1990	29,429	106,784	17,990,455
2000	26,705	111,738	18,976,457
2010	27,023	116,229	19,378,102

Source: U.S. Census population estimates.

## Form of City Government

The City has had the Council-Manager form of local government since 1920. The five member Council is elected at large for four year terms. Elections are non-partisan as provided by the City Charter. A full time City Manager, appointed by the Council, is the Chief Executive Officer of the City Government.

## Financial Organization

The City Comptroller is the Chief Fiscal Officer and is responsible for receiving, collecting and disbursing funds. It is also the responsibility of the City Comptroller to audit bills for all financial transactions.



## Budgetary Procedures

Under the City Charter, the City Manager prepares the annual proposed budget. It is presented to the City Council and the public about mid-April of each year, approximately six weeks before the budget must be adopted. A public hearing on the budget must be held by the City Council before the adoption of the budget. Through its adopted budget, the City Council establishes the kind and level of services and projects for the following fiscal year, July 1 through June 30. The Council sets the real property tax rate. Throughout the year, the City Manager exercises administrative budgetary controls. Money can be spent only for services, materials, and projects established in the budget. Unexpended appropriations are closed to the appropriate fund balance at the end of the fiscal year and are then used in estimating the anticipated surplus items in the budget for the following year.

## State Aid and Financial Condition of the State

The City receives financial assistance from New York State. In the City's General Fund for the 2014-2015 fiscal year, approximately 13% of the operating revenues of the City are expected to be received in the form of State aid. If the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in any year the City may be affected by a delay in the receipt of State aid until sufficient State taxes have been received by the State to make State aid payments. Additionally, if in any year the State should not adopt its budget in a timely manner, municipalities and school districts in the State, including the City, may be affected by a delay in the payment of State aid.

The State is not constitutionally obligated to maintain or continue State aid to the City. No assurance can be given that present State aid levels will be maintained in the future. In view of the State's continuing budget problems, future State aid reductions are likely. State budgetary restrictions which eliminate or substantially reduce State aid could have a material adverse effect upon the City, requiring either a counterbalancing increase in revenues from other sources to the extent available, or a curtailment of expenditures (see also "Market Factors Affecting Financing of the State and Municipalities of the State" herein).

## Employees

The City currently employs approximately 325 full-time and 35 to 77 part-time or seasonal employees. Police and Fire Department employees, and general City employees are each represented by a collective bargaining agent. Those agents which represent them and the dates of expiration of their agreements are as follows:

<u>Bargaining Unit</u>	<u>No. of Employees</u>	<u>Contract Expiration Dates</u>
Civil Service Employees Association	142	June 30, 2017
Watertown Firefighters Association	74	June 30, 2014 <sup>1</sup>
Watertown Police Benevolent Association	64	June 30, 2017
International Brotherhood of Electrical Workers	3	June 30, 2016

<sup>1</sup> Contract in negotiation.

## Status and Financing of Employee Pension Benefits

Substantially all employees of the City are members of the New York State and Local Employees' Retirement System ("ERS") or the New York State and Local Police and Fire Retirement System ("PFRS"; with ERS, the "Retirement Systems"). The ERS and PFRS together are generally also known as the "Common Retirement Fund". The Retirement Systems are cost-sharing multiple public employer retirements systems. The obligation of employers and employees to contribute and the benefit to employees are governed by the New York State Retirement system and Social Security Law (the "Retirement System Law" or "NYSRSSL"). The Retirement Systems offer a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after ten years of credited service. The Retirement System Law generally provides that all participating employers in each retirement system are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement Systems. The Retirement Systems are non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976, with less than 10 years experience, must contribute 3% of gross annual salary toward the cost of retirement programs.

Historically there has been a State mandate requiring full (100%) funding of the annual actuarially required local governmental contribution out of current budgetary appropriations. With the strong performance of the Retirement System in the 1990s, the locally required annual contribution declined to zero. However, with the subsequent decline in the equity markets, the pension system became underfunded. As a result, required contributions increased substantially to 15% to 20% of payroll for the ERS and PFRS, respectively. Wide swings in the contribution rate resulted in budgetary planning problems for many participating local governments. While the City is aware of the potential negative impact on its budget and will take the appropriate steps to budget accordingly for the increase, there can be no assurance that its financial position will not be negatively impacted.

Chapter 49 of the Laws of 2003 amended the Retirement and Social Security Law and the Local Finance Law. The amendments empowered the State Comptroller to implement a comprehensive structural reform program for the ERS and PFRS. The reform program established a minimum contribution for any local governmental employer equal to 4.5% of pensionable salaries for bills which were due December 15, 2003 and for all fiscal years thereafter, as a minimum annual contribution where the actual rate would otherwise be 4.5% or less due to the investment performance of the fund. In addition, the reform program instituted a billing system to match the budget cycle of municipalities and school districts that will advise such employers over one year in advance concerning actual pension contribution rates for the next annual billing cycle. Under the previous method, the requisite ERS and PFRS contributions for a fiscal year could not be determined until after the local budget adoption process was complete. Under the revised system, a contribution for a given fiscal year is based on the valuation of the pension fund on April 1 of the calendar year preceding the contribution due date instead of the following April 1 in the year of contribution so that the exact amount may now be included in a budget.

On July 30, 2004, Governor Pataki signed into law Chapter 260 of the Laws of 2004 ("Chapter 260"). Chapter 260 contains three components which alter the way municipalities and school districts contribute to the state pension system: (1) revision of the payment due date, (2) extension of the period of time for pension debt amortization, and (3) authorization to establish a pension reserve fund. Prior to the effective date of the provisions of Chapter 260, the annual retirement bill sent to municipalities and school districts from the state has reflected pension payments due between April 1 and March 31, consistent with the state fiscal year.

Chapter 260 provides for the following changes:

- Contribution Payment Date Change: The law changed the date on which local pension contributions are due to the state. The annual required contribution became due February 1 annually instead of December 15.
- Pension Contributions Reserve Fund: The law created special authorization to create a new category of reserve fund under the General Municipal Law. Municipalities and school districts may now establish a retirement contribution reserve fund that can be funded from other available current government resources.

The investment of monies, and assumptions underlying same, of the Retirement Systems covering the City's employees is not subject to the direction of the City. Thus, it is not possible to predict, control or prepare for future unfunded accrued actuarial liabilities of the Retirement Systems ("UAALs"). The UAAL is the difference between total actuarially accrued liabilities and actuarially calculated assets available for the payment of such benefits. The UAAL is based on assumptions as to retirement age, mortality, projected salary increases attributed to inflation, across-the-board raises and merit raises, increases in retirement benefits, cost-of-living adjustments, valuation of current assets, investment return and other matters. Such UAALs could be substantial in the future, requiring significantly increased contributions from the City which could affect other budgetary matters. Concerned investors should contact the Retirement Systems administrative staff for further information on the latest actuarial valuations of the Retirement Systems.

On September 3, 2009, the New York State Comptroller announced that employer contribution rates for the ERS and PFRS would increase in 2011. Due to recent market performance, the New York State Common Retirement Fund (Fund) had a negative 26.3% return for the fiscal year ended March 31, 2009. The average ERS rate is 11.9% (up from 7.4% in 2010) and the average PFRS rates is 18.2% (up from 15.1% in 2010).

On December 10, 2009, then Governor Paterson signed into law pension reform legislation that will provide (according to a Division of the Budget analysis) more than \$35 billion in long-term savings to State taxpayers over the next thirty years. The legislation creates a new Tier 5 pension level, the most significant reform of the State's pension system in more than a quarter-century. Key components of Tier 5 include:

- Raising the minimum age at which most civilian can retire without penalty from 55 to 62 and imposing a penalty of up to 38% for any civilian who retires prior to age 62.
- Requiring employees to continue contribution 3% of their salaries toward pension costs so long as they accumulate additional pension credits.
- Increasing the minimum years of service required to draw a pension from 5 years to 10 years.
- Capping the amount of overtime that can be considered in the calculation of pension benefits for civilians at \$15,000 per year, and for police and firefighters at 15% of non-overtime wages.

On March 16, 2012, the Governor signed into law the new Tier VI pension program, effective for ERS and PFRS employees who join on or after April 1, 2012. The Tier VI legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from three years to five years. Tier VI employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

The following table presents the amount of payments by the City to the New York State Retirement Systems for the past five years:

FY Ending June 30	ERS	PFRS
2010	\$618,718	\$1,127,720
2011	921,798	1,367,396
2012	1,232,403	1,936,189
2013	1,535,739	2,423,515
2014	1,748,158	2,516,571
2015	1,657,173	2,494,595

#### **Other Post Employment Benefits**

The City provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB") requires governmental entities, such as the City, to account for the cost of certain non-pension post-employment benefits as such entities account for vested pension benefits.

OPEB refers to "other post-employment benefits," and refers to benefits other than pension benefits. OPEB consists primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Before GASB 45, OPEB costs were generally accounted for and managed as current expenses in the year paid and were not reported as a liability on governmental financial statements.

GASB 45 requires municipalities and school districts to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB Statement No. 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC .

Actuarial Valuation will be required every two years for OPEB plans with more than two hundred members, or every three years if there are less than two hundred members. Additional information about GASB 45 and other accounting rules applicable to municipalities and school districts may be obtained from GASB.

The City hired an actuarial firm for the actuarial valuation which calculated an ARC of \$7,444,876 and an unfunded actuarial accrued liability of \$134,515,815, as of September 1, 2013. The City is currently paying OPEB expenses on a pay as you go basis and in the current financial context, expects to do so in the foreseeable future. There is no authority in current state law to establish a trust account or reserve fund for this liability. The City is in compliance with the requirements of GASB 45.

### Unemployment Rate Statistics

	<u>Year Average</u>				
	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
City of Watertown	8.7%	9.3%	9.0%	8.4%	6.5%
Jefferson County	9.3%	9.8%	9.9%	9.3%	7.6%
New York State	8.6%	8.3%	8.5%	7.7%	6.3%

	<u>2015 Monthly Averages</u>				
	<u>Jan</u>	<u>Feb</u>	<u>Mar</u>	<u>Apr</u>	<u>May</u>
City of Watertown	6.4%	6.3%	5.8%	5.6%	N/A
Jefferson County	8.7%	8.6%	8.1%	7.2%	N/A
New York State	6.5%	6.4%	5.8%	5.5%	N/A

Source: Department of Labor, State of New York. (Note: Figures not seasonally adjusted).

### National Grid (formerly Niagara Mohawk Power Corp.) and the City's Electrical Distribution System

On October 15, 1990, the City Council approved and authorized the execution of a Letter of Understanding between the City and National Grid (formerly Niagara Mohawk Power Corporation) in connection with the purchase of the City's Electrical Distribution System and future purchases of surplus power generated by the City's Hydroelectric Generating Plant. A major condition of the contract signed in March, 1991 was National Grid's \$7,000,000 payment to the City for title to the distribution system's street lighting facilities. Of that amount, a portion was put in a Mandatory Reserve for the payment of debt service on Bonds previously issued, which have matured, and the remaining amount transferred to a Capital Projects Fund for the reconstruction of the City's Dams, Headgates and Power Canal. See "Power Purchase Agreement", herein.

### The Hydroelectric Project

The City owns and operates the Hydroelectric Project, which is located on the Black River. The principal features of the Hydroelectric Project consist of two dams (the diversion dam and the Delano Island dam), a headgate, a power channel and forebay, a powerhouse, an impoundment and appurtenant facilities.

The Federal Energy Regulatory Commission ("FERC") issued a new license to the City for a major facility upgrade on June 16, 1995. Under that license, the City proposed to replace all existing electrical and mechanical equipment with new generating units. This would have increased the nameplate capacity of the Hydroelectric Project from 5.4 MW with an average annual generation of approximately 28,000 MWh to a nameplate capacity of 10.8 MW with an average annual generation of approximately 49,900 MWh. The City estimated that the construction cost of the facility upgrade to the 10.8 MW level would be \$25,000,000 to \$30,000,000.

In November 1996, the City filed an Application for License Amendment (the "Amendment") with the FERC under which the City proposed to renovate rather than replace certain of the major elements of the Hydroelectric Project. Under the Amendment, the City proposed to retain the existing powerhouse, rewind the existing generators and replace portions of the turbines rather than replace all of the existing equipment. This was expected to result in a facility with a nameplate capacity of 7.0 MW with an average annual generation of approximately 30,300 MWh. The FERC approved the Amendment on January 6, 1997.

The project was completed in January 2000, with all three turbines on line. The facility now has a nameplate capacity of 6.54 MW and an average annual generation of approximately 24,970 MWh. The total approximate cost of the project was

\$9,500,000. The City has signed a contract with Upstate Testing and Control, LLC (formerly Mercer Management Incorporated), Albany, New York, for operation and maintenance of the plant through June 30, 2015. The City paid Upstate Testing and Control, LLC \$253,351 in fiscal year 2012-2013, \$282,045 in fiscal year 2013-2014 and will pay approximately \$335,000 in fiscal year 2014-2015. The City had gross revenues from electric power sales of approximately \$3,906,347 and net revenues of \$3,525,361 after operating expenses and wheeling charges for the fiscal year ending June 30, 2014.

**Power Purchase Agreement**

On March 19, 1991 the City entered into a Power Purchase Agreement (the “PPA”) with National Grid (formerly Niagara Mohawk Power Corporation) that requires National Grid to purchase all of the power and energy (the “Excess Energy”) generated by the Hydroelectric Project in excess of the power and energy required by certain municipal accounts (the “Municipal Accounts”) of the City. The Municipal Accounts are all of the City owned users of electricity, such as City departments (DPW, water, sewer) and other units (the pool, parks, library, City buildings). National Grid has agreed to deliver power to the Municipal Accounts pursuant to a separate Transmission and Distribution Agreement. The PPA further obligates National Grid to sell energy to the Municipal Accounts at its published Rate Schedule PSC No. 207 Electricity, Service Classification No. 7 for any times during which the Hydroelectric Project is not able to produce sufficient energy to supply the Municipal Accounts. During the period in which the City was upgrading the Hydroelectric Project and all units were offline (June-September 1997), the City arranged to buy power from New York Power Authority (“NYPA”). Additional requests for power above that provided by NYPA were supplied by National Grid.

The PPA requires National Grid to purchase power at rates set forth therein, which range from 10.11 cent/KWh in 2000 to 34.78 cents/KWh in 2029 with annual increases of approximately 4.3%. The PPA terminates on December 31, 2030, the Termination Date. The PPA may not be terminated by either party prior to the Termination Date; however, there are provisions under which National Grid is not required to purchase Excess Energy and the City is not required to deliver energy by reasons of maintenance, repair, emergency or safety.

The following table sets forth the revenues received by the General Fund over the last five years from such sales to National Grid and the City’s Water and Wastewater Treatment Plants:

Year Ending June 30	National Grid	City (Water, Wastewater, Library Funds)	Total Amount
2010	\$1,582,605	\$1,123,966	\$2,706,571
2011	2,313,244	1,209,193	3,522,437
2012	1,581,083	1,185,020	2,766,103
2013	1,670,561	1,405,543	3,076,104
2014	2,373,027	1,533,319	3,906,346
2015 (estimate)	2,330,000	1,625,000	3,955,000

**Agreements Between The Development Authority of the North Country and the City**

Sewer Agreement

By resolution adopted July 7, 1986, the City Council approved an agreement between the City and the Development Authority of the North Country, in order to provide wastewater treatment to Fort Drum and outlying communities at the City’s Water Pollution Control Plant. The Development Authority of the North Country and United States Army executed an agreement on June 13, 1986 requiring sewage to be delivered for treatment at the Watertown Water Pollution Control Plant by April 1, 1987. In order to provide service for the Army’s sewage, it was necessary for the City of Watertown to let two major construction projects at the Water Pollution Control Plant.

The total project cost for the completed construction expansion was \$11,897,372, financed through the issuance of bonds. On June 15, 2007 the final principal payment was made on the expansion debt. Previously, the City had recouped these expenditures through service fees charged to the Development Authority of the North Country.

By resolution adopted July 6, 2009, the City Council approved two twenty-year agreements retroactive to April 1, 2009 between the City and the Development Authority of the North Country to continue providing sewage treatment and leachate treatment services to Fort Drum and outlying communities at the City’s Water Pollution Control Plant.

The following table sets forth the revenues received by the City over the last five years:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2010	\$632,880
2011	661,652
2012	721,894
2013	713,126
2014	688,541
2015 (estimate)	1,015,340

#### Water Agreement

In the spring of 1987, construction began on the renovations and new additions to the existing Water Treatment Plant Facility to provide for a plant capable of producing 10 million gallons per day of treated water.

The new facility was designed so that with some additional construction and equipment it could be upgraded to produce 15 million gallons per day.

The City Council, by resolution adopted on January 24, 1990, approved an Agreement between the City and the Development Authority of the North County in order to produce and deliver treated fresh water to Fort Drum and future outside water districts. On January 16, 1990, the Development Authority and the United States Army executed an agreement for water service to Fort Drum. Under a separate agreement, on December 4, 1995, the City granted the Development Authority of the North County the right to sell City water from the Fort Drum water line to municipalities and water districts in Jefferson County. On November 7, 2011 City Council approved a new twenty year agreement for water services which combined the two agreements.

After entering into the agreement with the Development Authority, the City entered into additional construction contracts to upgrade the facility from 10 million to 15 million gallons per day production capacity. The project was completed at a total cost of \$15,650,000 and was financed through bonding. Such bonds are no longer outstanding.

On May 16, 1991, the City began selling water to the Development Authority. The revenue derived is being used to offset the cost of capital construction of the plant and annual operation and maintenance expense. The revenue received by the City is based on a pro rata share of water purchased.

The following table sets forth the revenues received by the City over the last five years from such sales:

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2010	\$544,160
2011	546,326
2012	631,739
2013	730,203
2014	723,661
2015 (estimate)	696,435

#### **Other Information**

The statutory authority for the power to spend money for the object or purpose, or to accomplish the object or purpose for which the Bonds are to be issued, is the Charter of the City of Watertown, the General City Law and the Local Finance Law.

Any challenges to the validity of the Bonds would be limited by Section 82.00 of the Local Finance Law, because the stoppage procedure established by Title 6 of Article 2 of the Local Finance Law has been complied with respect to the Bonds.

No principal or interest upon any obligation of this City is past due. The City has never defaulted in the payment of principal and interest on any indebtedness.

The fiscal year of the City is July 1 through June 30.

This Official Statement does not include the financial data of any political subdivision having power to levy taxes within the City except under the sub-caption "Estimated Overlapping Indebtedness."

## **Financial Statements**

The City retains certified public accountants for the purposes of an independent audit. The last such audit covers the period ending June 30, 2014 and is incorporated as a part of this Official Statement as Appendix B. Certain financial information of the City is attached hereto as Appendix A to this Official Statement.

## **City Investment Policy**

The City has authorized the City Comptroller to invest moneys not required for immediate expenditure, pursuant to the statutes of the State of New York, in the following investments: (1) special time deposits in, or certificates of deposits issued by, a bank or trust company located and authorized to do business in the State of New York; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest is guaranteed by the United States of America; (4) obligations of the State of New York; (5) with the approval of the New York State Comptroller, tax anticipation notes and revenue anticipation notes issued by any New York municipality or district corporation, other than the City; (6) obligations of New York public benefit corporations which are made lawful investments in which the City may invest pursuant to another provision of law; (7) certain certificates of participation issued on behalf of political subdivisions of the State of New York; and, (8) in the case of City moneys held in certain reserve funds established pursuant to law, obligations issued by the City. These statutes further require that all bank deposits, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law.

## **Tax Increase Procedural Limitation Legislation**

Although the State Legislature is limited by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay "interest on or principal of indebtedness theretofore contracted", the State Legislature may from time to time impose additional limitations on the ability to issue new indebtedness or to raise taxes therefor.

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the "Tax Levy Limit Law" or the "Law"). The Tax Levy Limit Law generally applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities to levy certain year-to-year increases in real property taxes.

The City is subject to the Tax Levy Limit Law, beginning with the City's budget for its fiscal year beginning January 1, 2012. Pursuant to the Tax Levy Limit Law, additional procedural requirements are imposed if a municipality seeks to increase the tax levy by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the consumer price index, over the amount of the City's prior year's tax levy (the "Tax Levy Increase Limit"). In the event the City seeks to adopt a budget requiring a tax levy exceeding the Tax Levy Increase Limit, a favorable vote of at least three members of the five-member City Council would be required. The City Council would also be required to act by Local Law rather than simply by resolution, and a public hearing would be required.

The Law permits certain exceptions to the Tax Levy Increase Limit. The City may levy taxes exceeding the Tax Levy Increase Limit, if necessary, to support the following expenditures: (i) funds needed to pay judgments arising out of tort actions that exceed five percent of the total tax levied by the City in the prior fiscal year and (ii) required pension payments (but only that portion of such payments attributable to the average actuarial contribution rate exceeding two percentage points). Taxes necessary for these expenditures will not be included in the calculation of the Tax Levy Increase Limit.

The Law also provides for adjustments to be made to the City's Tax Levy Increase Limit based upon changes in the assessed value of the taxable real property in the City. Additionally, the City will be permitted to carry forward a certain portion of its unused tax levy capacity from the prior year.

Notes or bonds of the City issued prior to the June 24, 2011 effective date of the Tax Levy Limit Law are payable from real property taxes that can be levied as necessary without regard to any Constitutional or statutory limit. Inasmuch as the

Law has no exclusion for principal and interest on notes and bonds, however, levies required to pay principal and interest on notes and bonds will be included in the calculation of the Tax Levy Increase Limit. In the absence of administrative or judicial guidance, and with a lack of any experience operating under the Law, the effect of the Law on the City’s finances and its ability to continue to levy taxes sufficient to both pay debt service on pre June 24, 2011 and post June 24, 2011 notes and bonds and meet its other governmental responsibilities is uncertain.

**Real Property Tax Rebate.** Chapter 59 of the Laws of 2014 (“Chapter 59”), a newly adopted State budget bill includes provisions which provide a refundable personal income tax credit to real property taxpayers in school districts and certain municipal units of government. Real property owners in school districts are eligible for this credit in the 2014 and 2015 taxable years of those property owners. Real property taxpayers in certain other municipal units of government are eligible for this credit in the 2015 and 2016 taxable years of those real property taxpayers. The eligibility of real property taxpayers for the tax credit in each year depends on such jurisdiction’s compliance with the provisions of the Tax Levy Limit Law. School districts budgets must comply in their 2014-2015 and 2015-2016 fiscal years. Other municipal units of government must have their budgets in compliance for their 2015 and 2016 fiscal years. Such budgets must be within the tax cap limits set by the Tax Levy Limit Law for the real property taxpayers to be eligible for this personal income tax credit. The affected jurisdictions include counties, cities (other than any city with a population of one million or more and its counties), towns, villages, school districts (other than the dependent school districts of New York City, Buffalo, Rochester, Syracuse and Yonkers, the latter four of which are indirectly affected by applicability to their respective city) and independent special districts.

Certain additional restrictions on the amount of the personal income tax credit are set forth in Chapter 59 in order for the tax cap to qualify as one which will provide the tax credit benefit to such real property taxpayers. The refundable personal income tax credit amount is increased in the second year if compliance occurs in both taxable years.

For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers is additionally contingent upon adoption by the school district or municipal unit of a state approved “government efficiency plan” which demonstrates “three year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies”.

Municipalities, school districts and independent special districts must provide certification of compliance with the requirements of the new provisions to certain state officials in order to render their real property taxpayers eligible for the personal income tax credit.

While the provisions of Chapter 59 do not directly further restrict the taxing power of the affected municipalities, school districts and special districts, they do provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limit Law. The implications of this for future tax levies and for operations and services of the City are uncertain at this time.

## TAX INFORMATION

### Valuations

<u>Fiscal Year Ending</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
<u>June 30:</u>					
Assessed Valuation	\$999,381,290	\$1,009,575,758	\$1,020,156,961	\$1,028,442,629	\$1,033,766,939
New York State Equalization Rate	95.00%	95.00%	89.00%	88.00%	88.00%
Full Valuation	\$1,051,980,305	\$1,062,711,324	\$1,146,243,776	\$1,168,684,806	\$1,174,735,158
Tax Rate Per \$1,000 Assessed Valuation	\$7.48	\$7.22	\$7.21	\$7.29	\$7.98



## Tax Collection Record

<u>Fiscal Year Ending</u> <u>June 30:</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Total Tax Levy <sup>1</sup>	\$7,835,394	\$7,562,342	\$7,657,911	\$7,895,263	\$8,551,257
Additions (Cancellations) During the Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>(1,924)</u>	<u>0</u>
Net Tax Levy	7,835,394	7,562,342	7,657,911	7,893,339	8,551,257
Collections <sup>1</sup>	<u>7,692,554</u>	<u>7,520,098</u>	<u>7,597,035</u>	<u>7,825,775</u>	<u>8,352,507</u> <sup>2</sup>
Uncollected End of Year	\$ 142,840	\$ 42,244	\$ 60,876	\$ 67,564	198,750 <sup>2</sup>
% Collected	98.18%	99.44%	99.21%	99.14%	97.68% <sup>2</sup>

<sup>1</sup>Includes water, sewer and public service charges.

<sup>2</sup>As of April 27, 2015.

## Tax Collection Procedure

The City's fiscal year is July 1 through June 30. The City tax rate is based on an amount per \$1,000 assessed valuation. City Real Property tax invoices are prepared based on an Annual Assessment Roll prepared by the City Assessor as of January 1 of each year. The City Comptroller receives the bulk of the tax payments between July 5 - August 5, the regular annual collection period. The City Comptroller receives late payments throughout the year until June 1, at which time delinquent invoices are listed for the annual tax sale conducted at the end of June. All properties not purchased by others must, by City Charter requirements, be purchased by the City. Properties so purchased by the City may be redeemed upon payment of taxes, interest, and penalties up to a period of two years from the tax sale date. If still unredeemed at the end of two years from the tax sale date, the property becomes City owned on the basis of a Tax Sale Deed issued by the City Comptroller. Delinquent taxes are subject to penalty and interest of 6% for the first month and an additional 1/2 of 1% per month thereafter.

The City is responsible for the collection of Jefferson County taxes in the City, and must pay the County the full amount levied by the County, irrespective of actual collection, by March 1 of the current year. The City is also responsible for the collection of delinquent Watertown City School District taxes, and pays these taxes to the School District as they are collected.

## Larger Taxpayers

<u>Name</u>	<u>Type</u>	<u>2015-16</u> <u>Assessed</u> <u>Valuation</u>
National Grid (formerly Niagara Mohawk Power Corp.)	Utility	\$36,548,090
Arsenal Street Associates (Price Chopper Plaza)	Shopping Center	12,503,600
Erie Boulevard Hydropower	Utility	11,569,300
Arsenal Housing Associates	Apartments	10,519,000
Eastern Housing Associates	Apartments	9,100,200
Ontario Apartments LLC	Apartments	8,100,000
Allen Spevack (Stateway Plaza)	Shopping Center	7,472,300
Home Depot	Shopping Center	6,926,300
Watertown Savings Bank	Bank	5,114,650
200 Washington Street Assoc. LLC	Bank	4,712,100
First Columbia Samaritan LLC	Health Services	4,575,700
Waterberry Lodging Company	Hotel	4,546,800
Hotel 45 Inc	Hotel	4,543,058
WGS A Housing Associates LLC	Apartments	4,346,000
Jefferson Heights LLC	Apartments	4,237,650
Millennium Development LLC	Hotel	4,082,045
RE Alexander Partnership	Hotel	4,081,200
Ives Hill Retirement Community	Senior Living Facility	3,800,000

Emmi Watertown LLC	Hotel	3,488,287
Jon C. Lennox	Manufactured Housing Park	3,470,050
Furniture Executive No.8LP	Shopping Center	3,389,400
Verizon	Utility	3,355,530
Rothschild/Breuer Assoc. LLC	Business Offices	3,275,935
Golden Ocean Mgmt Inc.	Motel	3,039,950
81 Land Co. LLC	Shopping Center	3,020,746
Cole WG Watertown NY LLC	Retail	2,871,990
Thousand Island Hospitality LLC	Hotel	2,771,900
United Communication Corp.	Media Studio	2,714,800
North Country Affordable Housing	Apartments	2,631,847
Prime LLC	Golf Course	2,594,100
Maple Court Apartments II LP	Apartments	2,554,400

### Constitutional Tax Margin

Computation of Constitutional Tax Margin for fiscal years ended:

	<u>June 30, 2014</u>	<u>June 30, 2015</u>
Five Year Average Full Valuation	\$1,069,057,018	\$1,122,007,378
Tax Limit - 2% of Five Year Average	21,381,140	22,440,148
Add: Exclusions From Tax Limit	<u>5,490,234</u>	<u>4,284,964</u>
Maximum Taxing Power	26,871,374	26,725,112
Less Total Levy	<u>7,520,705</u>	<u>8,259,585</u>
Tax Margin	<u>\$ 19,350,669</u>	<u>\$ 18,465,527</u>

### Sales and Compensating Use Taxes

From December 1, 2008 the City receives 24.0% of the entire 3.75% County sales tax. The sales and compensating use tax collections as recorded by the City for each of the last five fiscal years are as follows:

Fiscal Year Ending	<u>Amount Received by City</u>
<u>June 30</u>	
2010	\$15,223,095
2011	16,007,070
2012	17,215,058
2013	17,247,801
2014	17,017,001
2015 (budget)	17,490,000
2016 (budget)	17,575,000

## CITY INDEBTEDNESS

### Constitutional Requirements

The State Constitution limits the power of the City (and other municipalities and certain school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional limitations in summary form, and as generally applicable to the City and the Bonds include the following:

*Purpose and Pledge.* Subject to certain enumerated exceptions, the City shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The City may contract indebtedness only for a City purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

*General.* The City is further subject to constitutional limitation by the general constitutionally imposed duty of the State Legislature to restrict the power of taxation and contracting indebtedness to prevent abuses in the exercise of such powers. The State Legislature is prohibited by a specific constitutional provision from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. Chapter 97 of the Laws of 2011 imposes a statutory limitation on the City's power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limit Law. See "Tax Increase Procedural Limitation Legislation," herein.

*Payment and Maturity.* Except for certain short-term indebtedness contracted in anticipation of taxes or to be paid within three fiscal year periods, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute, and unless substantially level or declining annual debt service is authorized and utilized, no installment may be more than fifty per centum in excess of the smallest prior installment. The City is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and such required annual installments on its notes.

*Debt Limit.* The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof, subject to certain limited exceptions, shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional method for determining full valuation is by taking the assessed valuation of taxable real estate as shown upon the latest completed assessment roll and dividing the same by the equalization rate as determined by the State Board of Real Property Services. The State Legislature is required to prescribe the manner by which such ratio shall be determined. Average full valuation is determined by taking the sum of the full valuation of the last completed assessment roll and the four preceding assessment rolls and dividing such sum by five.

Pursuant to Article VIII of the State Constitution and Titles 8 and 9 of Article 2 of the Local Finance Law, the debt limit of the City is calculated by taking 7% of the latest five year average of the full valuation of all taxable real property.

## **Statutory Procedure**

In general, the State Legislature has authorized the power and procedure for the City to borrow and incur indebtedness by the enactment of the Local Finance Law subject, of course, to the provisions set forth above. The power to spend money, however, generally derives from other law, including specifically the General City Law and the General Municipal Law.

Pursuant to the Local Finance Law, the City authorizes the issuance of bonds by the adoption of a bond resolution approved by at least two-thirds of the members of the City Council, the finance board of the City. Customarily, the Common Council has delegated to the City Comptroller, as chief fiscal officer of the City, the power to authorize and sell bond anticipation notes in anticipation of authorized bonds.

The Local Finance Law also provides that where a bond resolution is published with a statutory form of notice, the validity of the bonds authorized thereby, including bond anticipation notes issued in anticipation of the sale thereof, may be contested only if:

- (1) such obligations are authorized for a purpose for which the City is not authorized to expend money, or
- (2) there has not been substantial compliance with the provisions of law which should have been complied with in the authorization of such obligations

and an action contesting such validity, is commenced within twenty days after the date of such publication, or,

- (3) such obligations are authorized in violation of the provisions of the constitution.

Except on rare occasions the City complies with this estoppel procedure. It is a procedure that is recommended by Bond Counsel, but it is not an absolute legal requirement.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

The City Council, as the finance board of the City, has the power to enact bond resolutions. In addition, such finance board has the power to authorize the sale and issuance of obligations. However, such finance board may delegate the power to sell the obligations to the City Comptroller, the chief fiscal officer of the City, pursuant to the Local Finance Law.

Statutory law in New York permits bond anticipation notes to be renewed each year provided annual principal installments are made in reduction of the total amount of such notes outstanding, commencing no later than two years from the date of the first of such notes and provided that such renewals do not exceed five years beyond the original date of borrowing. (See "Payment and Maturity" under "Constitutional Requirements" herein, and "Details of Outstanding Indebtedness" herein).

In general, the Local Finance Law contains provisions providing the City with power to issue certain other short-term general obligation indebtedness including revenue and tax anticipation notes and budget notes (see "Details of Outstanding Indebtedness" herein).

**Debt Outstanding End of Fiscal Year**

Fiscal Years Ending June 30:	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Bonds <sup>1</sup>	\$30,980,200	\$28,180,000	\$24,200,000	\$22,630,000	\$26,020,000
Bond Anticipation Notes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
	\$30,980,000	\$28,180,000	\$24,200,000	\$22,630,000	\$26,020,000

<sup>1</sup>Does not include various refunded bond issues.

**Details of Outstanding Indebtedness**

The following table sets forth the indebtedness of the City evidenced by bonds and notes as of June 2, 2015.

<u>Form of Indebtedness</u>	<u>Maturity</u>	<u>Amount</u>
Bonds	2015-2029	\$22,880,000
	Total Debt Outstanding	\$22,880,000

**Debt Statement Summary**

Summary of Indebtedness, Debt Limit and Net Debt-Contracting Margin prepared as of June 2, 2015:

Five-Year Average Full Valuation of Taxable Real Property .....	\$1,120,871,074
Debt Limit - 7% thereof .....	78,460,975

Inclusions:

Serial Bonds.....	\$22,880,000	
Total Inclusions .....		<u>22,880,000</u>

Exclusions:

Self-Liquidating Debt <sup>1</sup> .....	\$4,542,000	
Water Debt <sup>2</sup> .....	3,300,437	
Sewer Debt <sup>3</sup> .....	7,111,887	
Cash on Hand in Man. Res. <sup>4</sup> .....	22,750	
Appropriations .....	<u>167,500</u>	
Total Exclusions .....		<u>15,144,574</u>

Total Net Indebtedness .....	<u>7,735,426</u>
Net Debt-Contracting Margin .....	<u>\$70,725,549</u>
Percent of debt contracting power exhausted .....	9.86%

The issuance of the Bonds will increase the indebtedness of the City by \$10,710,000.

<sup>1</sup> Debt related to the City's Hydro-electric facility is excluded pursuant to Section 123.000 of the Local Finance Law. The City is currently in the process of getting the exclusion certificate renewed. The City believes it will be approved.

<sup>2</sup> Water Debt is excluded pursuant to Article VIII, Section 5B of the New York State Constitution.

<sup>3</sup> Sewer Debt is excluded pursuant to Section 124.10 of the Local Finance Law.

<sup>4</sup> Cash on Hand from a Mandatory Reserve is excluded pursuant to Section 136.00(11) of the Local Finance Law.

**Authorized But Unissued Items**

After the issuance of the Bonds, the City had the following in authorized but unissued obligations for various capital projects.

	<u>Authorized</u>	<u>Unissued</u>
Factory Street reconstruction	\$12,900,000	\$10,200,000
Construction or reconstruction of sidewalks at various locations within the City	150,000	150,000
Design and installation of a new parallel transmission main to the Thompson Park reservoirs	1,000,000	75,000
Environmental clean-up and debris removal projects at the Ogilvie site	400,000	190,000
Design for the reconstruction and expansion of the Fairgrounds Arena	10,300,000	300,000
Wastewater Treatment Plant Disinfection System	6,100,000	790,000
City court renovations	948,000	948,000
Rehabilitation of Thompson Park Water Tank	<u>1,005,000</u>	<u>30,000</u>
	<u>\$32,803,000</u>	<u>\$12,683,000</u>

**Estimated Overlapping Indebtedness**

In addition to the City, the following political subdivisions have the power to issue bonds and to levy taxes or cause taxes to be levied on taxable real property in the City. Estimated bonds and bond anticipation notes are listed as of the close of the latest available fiscal year of the respective municipalities.

<u>Unit</u>	<u>Total</u> <u>Indebtedness</u>	<u>% Within</u> <u>City</u>	<u>Total</u> <u>Applicable</u> <u>Indebtedness</u>
County of Jefferson	\$12,860,000	15.2%	\$ 1,954,720
City School District of the City of Watertown	39,879,513	69.7%	<u>27,796,020</u>
Total			<u>\$29,750,740</u>

Source: New York State Comptroller’s Special Report on Municipal Affairs for Fiscal Year Ended in 2013.

**Bonded Debt Service<sup>1</sup>**

Fiscal Year Ending June 30th	Excluding the Bonds			Principal of Series A&B Bond Issues	Principal All Issues
	Principal	Interest	Total Principal and Interest		
2015	\$3,365,000	\$825,679	\$4,190,679	\$0	\$3,365,000
2016	3,235,000	696,650	3,931,650	695,000	3,930,000
2017	3,045,000	604,436	3,649,436	685,000	3,730,000
2018	2,955,000	515,827	3,470,827	690,000	3,645,000
2019	2,755,000	430,367	3,185,367	700,000	3,455,000
2020	2,125,000	353,757	2,478,757	710,000	2,835,000
2021	2,035,000	285,401	2,320,401	675,000	2,710,000
2022	1,525,000	218,026	1,743,026	685,000	2,210,000
2023	1,495,000	156,915	1,651,915	695,000	2,190,000
2024	790,000	108,115	898,115	710,000	1,500,000
2025	700,000	82,498	782,498	720,000	1,420,000
2026	635,000	60,306	695,306	735,000	1,370,000
2027	465,000	42,776	507,776	745,000	1,210,000
2028	480,000	27,963	507,963	735,000	1,215,000
2029	415,000	13,487	428,487	750,000	1,165,000
2030	0	0	0	765,000	765,000
2031	0	0	0	430,000	430,000
2032	0	0	0	445,000	445,000
2033	0	0	0	465,000	465,000
2034	0	0	0	480,000	480,000
2035	0	0	0	500,000	500,000
2036	0	0	0	520,000	520,000
2037	0	0	0	535,000	535,000
2038	0	0	0	560,000	560,000
2039	0	0	0	580,000	580,000
2040	0	0	0	600,000	600,000
Totals	\$26,020,000	\$4,422,203	\$30,442,203	\$15,810,000	\$41,830,000

<sup>1</sup> Table does not reflect payments made to date for fiscal year ending June 30, 2015.

**ENFORCEMENT OF REMEDIES UPON DEFAULT**

The following description of factors affecting the possible enforcement of remedies upon a default by the City is not intended to constitute legal advice and is not a substitute for obtaining the advice of counsel on such matters. Factors governing the availability of remedies against the City are complex and the obligations of the City, under certain circumstances, might not be enforced precisely as written.

**General Municipal Law Contract Creditors' Provision.** Each Bond when duly issued and paid for will constitute a contract between the City and the purchaser. Such contracts, if not honored, would generally be enforceable through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the City upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might apply if there were a default in the payment of the principal of and interest on the Bonds.

**Unavailability of Remedies of Levy and Attachment.** As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. Under the general rule with respect to municipalities, judgments against the City may not be enforced by levy and execution against property owned by the City.

**Constitutional Non-Appropriation Provision.** The Constitution of the State, Article VIII, Section 2, contains the following provision relating to the annual appropriation of monies for the payment of principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required

to set aside and apply such revenues as aforesaid at the suit of any owner of obligations issued for any such indebtedness." If the City were to fail to make a required appropriation, however, the ability of affected owners of City indebtedness to enforce this provision as written could be compromised or eliminated as described below under "Bankruptcy", "State Debt Moratorium Law" and "Possible Priority of Continuation of Essential Public Services".

**Bankruptcy.** The Federal Bankruptcy Code allows municipalities, such as the City, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Should the City file for relief under the Federal Bankruptcy Code there could be adverse effects on the owners of the Bonds.

The State, in Section 85.80 of the Local Finance Law, has authorized any municipality in the State to file a petition with the United States District Court or court of bankruptcy under any provision of the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness. Subject to such State consent, under the United States Constitution, Congress has jurisdiction over such matters and has enacted amendments to the existing federal bankruptcy statute, being Chapter 9 thereof, generally to the effect and with the purpose of affording municipal corporations, under certain circumstances, with easier access to judicially approved adjustment of debt including judicial control over identifiable and unidentifiable creditors.

Under the United States Constitution, Federal law is supreme and may be enforced irrespective of contrary state law. Accordingly, proceedings in accordance with the Federal Bankruptcy Code could result in an allocation of funds that fails to honor the faith and credit pledge required by the State Constitution.

No current State law purports to create any collateral or priority for owners of the Bonds should the City be under the jurisdiction of any court, pursuant to the laws of the United States, now or hereafter in effect, for the composition or adjustment of municipal indebtedness. The Bonds could be deemed unsecured obligations of the City in a bankruptcy case.

Under the Federal Bankruptcy Code, a petition may be filed in the Federal Bankruptcy court by a municipality that is insolvent, which generally means the municipality is unable to meet its debts as they mature. Generally, the filing of such a petition operates as a stay of any proceeding to enforce a claim against the municipality. The Federal Bankruptcy Code also requires that a plan be filed for the adjustment of the municipality's debt, which may modify or alter the rights of creditors. Any plan of adjustment can be confirmed by the court over the objections of creditors if the plan is found to be "fair and equitable" and in the "best interests of creditors." The City may be able, without the consent and over the objection of owners of the Bonds, to impair and alter the terms and provisions of the Bonds, including the payment terms, interest rate, maturity date, and payment sources, as long as the bankruptcy court finds that the alterations are "fair and equitable." If confirmed by the bankruptcy court, the plan would be binding upon all creditors affected by it.

The rights of the owners of Bonds to receive interest and principal from the City and the enforceability of the City's faith and credit pledge to pay such interest and principal could be adversely affected by the restructuring of the City's debt under Chapter 9 of the Federal Bankruptcy Code. No assurance can be given that any priority of owners of debt obligations issued by the City (including the Bonds) to payment from monies retained in any fund or from other sources would be recognized if a petition were filed by or on behalf of the City under the Federal Bankruptcy Code. Such monies might, under such circumstances, be paid to satisfy the claims of all creditors generally, or might even be directed to satisfy other claims instead of being paid to the owners of the Bonds.

Regardless of any specific adverse determinations in a bankruptcy proceeding of the City, the fact of such a bankruptcy proceeding could have an adverse effect on the liquidity and market value of the Bonds.

**State Debt Moratorium Law.** Unless the Federal Bankruptcy Code or other Federal Law applies, as described above, enforcement of the rights of Bond owners will generally be governed by State Law. In 1975, a general State law debt service moratorium statute was enacted.

Under that legislation, the right to commence or continue an action in any court to collect or enforce certain short-term obligations of The City of New York was suspended. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of obligations.

Accordingly, State legislation materially limiting the timing or manner of actions to enforce the faith and credit pledge against an issuer of general obligation debt (including that portion of Title 6-A of Article 2 of the Local Finance Law enacted

in 1975 authorizing any municipality in a State-declared financial emergency period to petition to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality) could be determined to conflict with the State Constitution and may not be enforceable.

The Constitutional provision providing for first revenue set asides applies to the payment of interest on all indebtedness and to the payment of principal payments on Bonds, but does not apply to pay payment of principal due on tax anticipation notes, revenue anticipation notes or bond anticipation notes.

**Possible Priority of Continuation of Essential Public Services.** In prior years, certain events and legislation affecting remedies upon default on municipal obligations have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of owners of such obligations, such courts might hold that future events, including financial crises as they may occur in the State and in political subdivisions of the State, require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

**No Past Due Debt.** No principal of or interest on City indebtedness is past due. The City has never defaulted in the payment of the principal of and interest on any indebtedness.

**End of Appendix A**



**APPENDIX B**  
**FINANCIAL STATEMENT SUMMARIES**

**City of Watertown**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**

**APPENDIX B**

Year Ended June 30:	2010	2011	2012	2013	2014
<b>REVENUES</b>					
Real Property Taxes	\$7,316,832	\$7,054,030	\$7,307,193	\$7,425,473	\$7,601,674
Real Property Tax Items	243,461	315,952	292,558	316,811	324,324
Non-Property Tax Items	16,185,100	17,054,098	18,217,972	18,240,151	17,997,291
Departmental Income	4,050,469	4,940,166	4,321,479	4,624,830	5,492,777
Intergovernmental Charges	149,317	117,157	160,387	125,391	154,596
Use of Money and Property	153,597	145,689	103,682	67,049	97,923
Licenses and Permits	84,181	93,916	105,309	66,534	110,098
Fines and Forfeitures	106,463	100,533	131,737	143,708	120,182
Sale of Property and Compensation for Loss	528,187	475,533	560,378	300,975	112,972
Miscellaneous	751,113	706,592	743,454	763,317	853,840
Interfund Revenues	1,065,423	1,012,040	993,026	1,045,413	1,100,004
State Aid	5,786,618	5,627,714	5,368,524	8,667,448	5,431,626
Federal Aid	498,086	675,655	523,068	467,463	438,328
<b>Total Revenues</b>	<b>36,918,847</b>	<b>38,319,075</b>	<b>38,828,767</b>	<b>42,254,563</b>	<b>39,835,635</b>
<b>EXPENDITURES</b>					
General Government Support	5,214,956	4,956,825	5,231,571	5,171,962	5,063,278
Public Safety	12,706,872	13,859,362	14,383,533	15,110,431	15,472,862
Transportation	3,847,422	3,927,197	3,868,349	4,259,335	4,602,840
Economic Assistance and Opportunity	97,029	94,554	118,984	116,232	106,008
Culture and Recreation	1,066,431	1,126,600	1,270,304	1,772,114	1,606,097
Home and Community Services	1,167,025	1,072,073	1,218,839	1,195,126	1,078,704
Employee Benefits	7,286,561	8,004,881	7,319,167	7,435,778	7,256,834
Debt Service	3,794,158	4,546,364	3,303,601	2,762,927	2,644,203
<b>Total Expenditures</b>	<b>35,180,454</b>	<b>37,587,856</b>	<b>36,714,348</b>	<b>37,823,905</b>	<b>37,830,826</b>
Excess revenue over (under) expenditure	1,738,393	731,219	2,114,419	4,430,658	2,004,809
Other financing sources (uses)					
Operating transfers in	490,283	273,034	178,566	116,035	186,344
Operating transfers out	(1,365,614)	(1,521,521)	(3,180,708)	(1,708,455)	(2,521,499)
<b>Total other financing sources (uses)</b>	<b>(875,331)</b>	<b>(1,248,487)</b>	<b>(3,002,142)</b>	<b>(1,592,420)</b>	<b>(2,335,155)</b>
Excess revenue and other sources over (under) expenditures and other uses	863,062	(517,268)	(887,723)	2,838,238	(330,346)
Fund balance (deficit) beginning of year	13,637,070	14,558,066	14,133,689	13,308,140	16,186,135
Adjustments (net)	57,934	92,891	62,174	39,757	52,272
<b>Fund balance (deficit) end of year</b>	<b>\$14,558,066</b>	<b>\$14,133,689</b>	<b>\$13,308,140</b>	<b>\$16,186,135</b>	<b>\$15,908,061</b>

Source: Annual audited financial statements of the City of Watertown.  
This summary itself not audited.

**City of Watertown  
Budget Results  
General Fund**

**APPENDIX B-1**

Year Ended June 30:	2015	2016
	Adopted Budget	Adopted Budget
<b><u>REVENUES</u></b>		
Real Property Taxes	\$8,280,726	\$8,406,979
Real Property Tax Items	289,125	327,000
Non-Property Tax Items	18,474,000	18,540,000
Departmental Income	5,127,200	5,186,575
Intergovernmental Charges	136,170	140,030
Use of Money and Property	91,810	92,360
Licenses and Permits	83,350	92,600
Fines and Forfeitures	145,000	135,000
Sale of Property and Compensation for Loss	161,100	195,100
Miscellaneous	805,128	842,635
Interfund Revenues	1,144,455	1,187,024
State Aid	5,545,960	5,580,210
Federal Aid	525,425	680,800
Total Revenues	40,809,449	41,406,313
<b><u>EXPENDITURES</u></b>		
General Government Support	6,122,071	6,020,606
Public Safety	15,481,039	15,665,892
Transportation	4,960,006	5,053,198
Economic Assistance & Opportunity	112,500	52,500
Culture and Recreation	1,575,379	1,583,142
Home and Community Services	1,232,724	1,304,609
Employee Benefits	8,240,705	8,725,366
Debt Service	2,613,235	3,086,348
Total Expenditures	40,337,659	41,491,661
Excess revenue over (under) expenditures	471,790	(85,348)
Other financing sources (uses)		
Operating transfers in	44,500	83,900
Operating transfers out	(1,768,665)	(1,962,823)
Total other financing sources (uses)	(1,724,165)	(1,878,923)
Excess revenue and other sources over (under) expenditures and other uses	(1,252,375)	(1,964,271)
Fund balance & reserve beginning of year	1,252,375 <sup>1</sup>	1,964,271 <sup>1</sup>
Adjustments (net)	N/A	N/A
Fund balance (deficit) end of year	\$0	\$0

<sup>1</sup> Appropriated fund balance budgeted as revenue.

Source: Adopted budgets of the City of Watertown.

**City of Watertown  
Balance Sheets  
General Fund**

**APPENDIX B-2**

As of June 30:	<u>2013</u>	<u>2014</u>
<b><u>ASSETS</u></b>		
Unrestricted cash and cash equivalents	\$13,316,508	\$14,820,808
Restricted cash and cash equivalents	3,152,475	2,095,428
Accounts receivables - net	979,457	983,853
Taxes receivables - net	169,537	110,968
Due from Other Governments	1,782,368	1,826,859
State and Federal receivables	301,191	80,842
Due from Other Funds	439,866	335,090
Inventory	2,362	2,362
Prepaid Expenses	45,991	36,865
<b>TOTAL ASSETS</b>	<b><u>20,189,755</u></b>	<b><u>20,293,075</u></b>
<b><u>LIABILITIES</u></b>		
Accounts Payable	883,882	1,113,677
Accrued Liabilities	1,107,079	1,410,484
Compensated Absences	674,278	596,298
Other Liabilities	7,835	8,663
Due to Other Funds	190,670	160,268
Due to Other Governments	50,581	51,596
Due to Retirement System	823,947	880,795
Deferred Revenue	265,348	163,233
<b>TOTAL LIABILITIES</b>	<b><u>4,003,620</u></b>	<b><u>4,385,014</u></b>
<b><u>FUND BALANCE</u></b>		
Nonspendable	48,353	39,227
Restricted	4,105,125	3,111,024
Assigned	3,888,043	3,650,963
Unassigned	8,144,614	9,106,847
<b>TOTAL FUND EQUITY</b>	<b><u>16,186,135</u></b>	<b><u>15,908,061</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$20,189,755</u></b>	<b><u>\$20,293,075</u></b>

Source: Annual audited financial statements of the City of Watertown.  
This summary itself not audited.

**City of Watertown  
Change In Fund Balance and  
Changes in Net Assets**

**APPENDIX B-3**

Fiscal Year Ended June 30:	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b><u>SPECIAL REVENUE FUND</u></b>					
Balance Beginning of Year	<u>\$612,915</u>	<u>\$747,211</u>	<u>\$702,285</u>	<u>\$558,757</u>	<u>\$522,886</u>
Revenues	3,671,767	2,166,483	2,044,479	1,707,338	5,821,621
Expenditures	<u>3,537,471</u>	<u>2,211,409</u>	<u>2,188,007</u>	<u>1,743,209</u>	<u>5,856,207</u>
Balance End of Year	<u><u>\$747,211</u></u>	<u><u>\$702,285</u></u>	<u><u>\$558,757</u></u>	<u><u>\$522,886</u></u>	<u><u>\$488,300</u></u>
<b><u>WATER FUND</u></b>					
Net Assets Beginning of Year	<u>\$14,994,363</u>	<u>\$15,000,101</u>	<u>\$15,277,687</u>	<u>\$15,531,783</u>	<u>\$15,721,290</u>
Prior period adjustments (net)	0	277,586	0	0	0
Revenues	4,520,934	4,546,654	4,705,202	4,934,866	5,105,399
Expenditures	<u>4,515,196</u>	<u>4,546,654</u>	<u>4,451,105</u>	<u>4,745,359</u>	<u>5,167,941</u>
Net Assets End of Year	<u><u>\$15,000,101</u></u>	<u><u>\$15,277,687</u></u>	<u><u>\$15,531,784</u></u>	<u><u>\$15,721,290</u></u>	<u><u>\$15,658,748</u></u>
<b><u>SEWER FUND</u></b>					
Net Assets Beginning of Year	<u>\$12,745,422</u>	<u>\$13,296,035</u>	<u>\$14,031,710</u>	<u>\$15,237,555</u>	<u>\$15,529,385</u>
Prior period adjustments (net)	0	735,675	0	0	0
Revenues	4,848,582	5,100,719	5,528,906	5,338,512	5,756,298
Expenditures	<u>4,297,969</u>	<u>5,100,719</u>	<u>4,323,061</u>	<u>5,046,682</u>	<u>4,940,776</u>
Net Assets End of Year	<u><u>\$13,296,035</u></u>	<u><u>\$14,031,710</u></u>	<u><u>\$15,237,555</u></u>	<u><u>\$15,529,385</u></u>	<u><u>\$16,344,907</u></u>

Source: Annual audited financial statements of the City of Watertown.  
This summary itself not audited.

**APPENDIX C  
AUDITED FINANCIAL STATEMENTS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

**Can be accessed on the Electronic Municipal Market Access (“EMMA”) website  
of the Municipal Securities Rulemaking Board (“MSRB”)  
at the following link:**

<http://emma.msrb.org/EA691103-EA542056-EA938261.pdf>

**The audited financial statements referenced above are hereby incorporated into the attached  
Official Statement.**

**\* Such Financial Statements and opinion are intended to be representative only as of the date thereof. Bowers & Company CPAs PLLC has not been requested by the District to further review and/or update such Financial Statements or opinion in connection with the preparation and dissemination of this Official Statement.**

**DISCLOSURE UNDERTAKING CERTIFICATE  
PURSUANT TO RULE 15c2-12 OF THE  
SECURITIES AND EXCHANGE COMMISSION**

On the date hereof, the City of Watertown, Jefferson County, New York (the "City") is issuing its \$10,000,000 Public Improvement (Serial) Bonds, 2015 Series A and \$5,810,000 Public Improvement (Serial) Bonds, 2015 Series B, both dated June 25, 2015 (the "Bonds"). To facilitate compliance with Rule 15c2-12 of the Securities and Exchange Commission (the "SEC") promulgated under the Securities Exchange Act of 1934, as amended by the underwriter (as defined in the Rule), the City hereby undertakes for the benefit of the record and beneficial owners from time to time of the Bonds (the "Holders") to provide:

**A. Definitions.** As used in this Undertaking, the following terms have the meanings ascribed to such terms below:

"*Bonds*" means the Issuer's \$10,000,000 Public Improvement (Serial) Bonds, 2015 Series A and \$5,810,000 Public Improvement (Serial) Bonds, 2015 Series B, both dated June 25, 2015.

"*Issuer*" means the City of Watertown, Jefferson County, New York.

"*MSRB*" means the Municipal Securities Rulemaking Board.

"*Rule*" means SEC Rule 15c2-12, as amended from time to time.

"*SEC*" means the United States Securities and Exchange Commission.

"*Undertaking*" means this Disclosure Undertaking.

**B. Annual Reports.** The Issuer shall provide annually to the MSRB, (1) within six months after the end of each fiscal year ending after the date hereof, financial information and operating data with respect to the Issuer of the general type contained in or cross referenced in the Issuer's final Official Statement, dated June \_\_\_\_, 2015 under the headings "**LITIGATION**", **and in Appendix A under the headings "THE CITY", "TAX INFORMATION", "CITY INDEBTEDNESS" and in Appendices B and C**, and (2) if not provided as part such financial information and operating data, audited financial statements of the Issuer, when and if available. Any financial statements so to be provided shall be prepared in accordance with the accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation, and shall be audited, if the Issuer commissions an audit of such statements and the audit is completed within the period during which they must be provided.

If the Issuer changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Issuer otherwise would be required to provide financial information and operating data pursuant to this Undertaking.

The financial information and operating data to be provided pursuant to this Undertaking may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the SEC.

**C. Event Notices.** The Issuer shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of holders of the Bonds, if material;
- (8) Bond or Note calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the Issuer, which shall occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Issuer in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Issuer, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Issuer.

The Issuer shall notify the MSRB, in a timely manner, of any failure by the Issuer to provide a notice described in "B", above, by the time required by this Undertaking.



**D. Filings with the MSRB.** All notices and other documents provided to the MSRB in accordance with this Undertaking shall be provided in an electronic format prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

**E. Limitations, Disclaimers, and Amendments.** The Issuer shall be obligated to observe and perform the covenants specified in this Undertaking for so long as, but only for so long as, the Issuer remains an “obligated person” with respect to the Bonds within the meaning of the Rule.

The provisions of this Undertaking are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Issuer undertakes to provide only the notices which it has expressly agreed to provide pursuant to this Undertaking and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Issuer’s financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Undertaking or otherwise, except as expressly provided herein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY NOTE OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITH OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS UNDERTAKING, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Issuer in observing or performing its obligations under this Undertaking shall constitute a breach of or default on the Bonds.

Nothing in this Undertaking is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

The provisions of this Undertaking may be amended by the Issuer from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Issuer, but only if (1) the provisions of this Undertaking, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of the Bonds consent to such amendment or (b) a person that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Issuer may also repeal or amend the provisions of this Undertaking if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the provisions of this Undertaking in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Issuer

so amends the provisions of this Undertaking, the Issuer shall include with any amended financial information or operating data next provided in accordance with this Undertaking an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

## APPENDIX E-1

June 25, 2015

City of Watertown,  
County of Jefferson,  
State of New York

Norton Rose Fulbright US LLP  
666 Fifth Avenue, 31st Floor  
New York, New York 10103-3198  
United States

Tel +1 212 318 3000  
Fax +1 212 318 3400  
nortonrosefulbright.com

Re: City of Watertown, Jefferson County, New York  
\$10,000,000 Public Improvement (Serial) Bonds, 2015 Series A

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of \$10,000,000 Public Improvement (Serial) Bonds, 2015 Series A (the "Obligation"), of the City of Watertown, Jefferson County, State of New York (the "Obligor"), dated June 25, 2015.

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986 (the "Code"), including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder;
- (3) a tax certificate (the "Tax Certificate") executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligation that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligation not to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligation and investment earnings thereon, making required payments to the federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligation to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligation and investment earnings thereon on certain specified purposes; and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or ordinance applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligation, including the form of the Obligation. In rendering the opinions expressed herein we have assumed (i) the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or

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certified by public officials acting within the scope of their official capacities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Tax Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligation has been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitutes a valid and legally binding general obligation of the Obligor, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Obligation and interest thereon, without limitation as to rate or amount, except as to certain statutory limitations which may result from the application of Chapter 97 of the Laws of 2011, provided, however, that the enforceability (but not the validity) of the Obligation: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights; and (ii) may be subject to the exercise of judicial discretion in certain cases.
- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligation; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights.
- (c) Under existing law, interest on the Obligation (1) will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes, pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions, assuming continuing compliance after the date hereof by the Obligor with the provisions of the Tax Certificate, and (2) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals. We call to your attention that interest on the Obligation owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code is computed. Under existing law, interest on the Obligation is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

We express no opinion with respect to any other federal, state or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligation. Ownership of tax-exempt obligations such as the Obligation may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax

credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The scope of our engagement in relation to the issuance of the Obligation has extended solely to the examination of the facts and law incident to rendering the opinion expressed herein. Such opinion is not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligation as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligation for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligation, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

Very truly yours,

## APPENDIX E-2

June 25, 2015

City of Watertown,  
County of Jefferson,  
State of New York

Norton Rose Fulbright US LLP  
666 Fifth Avenue, 31st Floor  
New York, New York 10103-3198  
United States

Tel +1 212 318 3000  
Fax +1 212 318 3400  
nortonrosefulbright.com

Re: City of Watertown, Jefferson County, New York  
\$5,810,000 Public Improvement (Serial) Bonds, 2015 Series B

Ladies and Gentlemen:

We have been requested to render our opinion as to the validity of an issue of \$5,810,000 Public Improvement (Serial) Bonds, 2015 Series B (the "Obligation"), of the City of Watertown, Jefferson County, State of New York (the "Obligor"), dated June 25, 2015.

We have examined:

- (1) the Constitution and statutes of the State of New York;
- (2) the Internal Revenue Code of 1986 (the "Code"), including particularly Sections 103 and 141 through 150 thereof, and the applicable regulations of the United States Treasury Department promulgated thereunder;
- (3) a tax certificate (the "Tax Certificate") executed on behalf of the Obligor which includes, among other things, covenants, relating to compliance with the Code, with the owners of the Obligation that the Obligor will, among other things, (i) take all actions on its part necessary to cause interest on the Obligation not to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, restricting, to the extent necessary, the yield on investments made with the proceeds of the Obligation and investment earnings thereon, making required payments to the federal government, if any, and maintaining books and records in a specified manner, where appropriate, and (ii) refrain from taking any action which would cause interest on the Obligation to be includable in the gross income of the owners thereof for federal income tax purposes, including, without limitation, refraining from spending the proceeds of the Obligation and investment earnings thereon on certain specified purposes; and
- (4) a certificate executed on behalf of the Obligor which includes, among other things, a statement that compliance with such covenants is not prohibited by, or violative of, any provision of local or special law, regulation or ordinance applicable to the Obligor.

We also have examined a certified copy of proceedings of the finance board of the Obligor and other proofs authorizing and relating to the issuance of the Obligation, including the form of the Obligation. In rendering the opinions expressed herein we have assumed (i) the accuracy and truthfulness of all public records, documents and proceedings, including factual information, expectations and statements contained therein, examined by us which have been executed or

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certified by public officials acting within the scope of their official capacities, and have not verified the accuracy or truthfulness thereof, and (ii) compliance by the Obligor with the covenants contained in the Tax Certificate. We also have assumed the genuineness of the signatures appearing upon such public records, documents and proceedings and the certifications thereof.

In our opinion:

- (a) The Obligation has been authorized and issued in accordance with the Constitution and statutes of the State of New York and constitutes a valid and legally binding general obligation of the Obligor, all the taxable property within which is subject to the levy of ad valorem taxes to pay the Obligation and interest thereon, without limitation as to rate or amount, except as to certain statutory limitations which may result from the application of Chapter 97 of the Laws of 2011, provided, however, that the enforceability (but not the validity) of the Obligation: (i) may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights; and (ii) may be subject to the exercise of judicial discretion in certain cases.
- (b) The Obligor has the power to comply with its covenants with respect to compliance with the Code as such covenants relate to the Obligation; provided, however, that the enforceability (but not the validity) of such covenants may be limited by any applicable bankruptcy, insolvency or other law now existing or hereafter enacted by said state or the federal government affecting the enforcement of creditors' rights.
- (c) Under existing law, interest on the Obligation (1) will be excludable from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes, pursuant to Section 103 of the Code and existing regulations, published rulings, and court decisions, assuming continuing compliance after the date hereof by the Obligor with the provisions of the Tax Certificate, and (2) will not be included in computing the federal alternative minimum taxable income of the owners thereof who are individuals. We call to your attention that interest on the Obligation owned by a corporation (other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit, real estate investment trust or a financial asset securitization investment trust (FASIT)) will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation. A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code is computed. Under existing law, interest on the Obligation is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

We express no opinion with respect to any other federal, state or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Obligation. Ownership of tax-exempt obligations such as the Obligation may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax

credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

The scope of our engagement in relation to the issuance of the Obligation has extended solely to the examination of the facts and law incident to rendering the opinion expressed herein. Such opinion is not intended and should not be construed to express or imply any conclusion that the amount of real property subject to taxation within the boundaries of the Obligor, together with other legally available sources of revenue, if any, will be sufficient to enable the Obligor to pay the principal of or interest on the Obligation as the same respectively become due and payable. Reference should be made to the Official Statement prepared by the Obligor in relation to the Obligation for factual information which, in the judgment of the Obligor, could materially affect the ability of the Obligor to pay such principal and interest. While we have participated in the preparation of such Official Statement, we have not verified the accuracy, completeness or fairness of the factual information contained therein and, accordingly, we express no opinion as to whether the Obligor, in connection with the sale of the Obligation, has made any untrue statement of a material fact or omitted to state a material fact necessary in order to make any statements made, in the light of the circumstances under which they were made, not misleading.

Very truly yours,