Watertown City Council
Monday, January 23, 2017
7:00 p.m.

WORK SESSION AGENDA

Discussion Items:

1. Arsenal Street Bridge Project – Update
   - Jeffrey Grill, New York State Department of Transportation

2. Introduction to the FY 2017-2018 Budget
   - Sharon Addison, City Manager
   - James E. Mills, City Comptroller

City Council Work Session
January 23rd 2017

Update on Arsenal Street Bridge over CSX RR & How the Department is Moving Forward

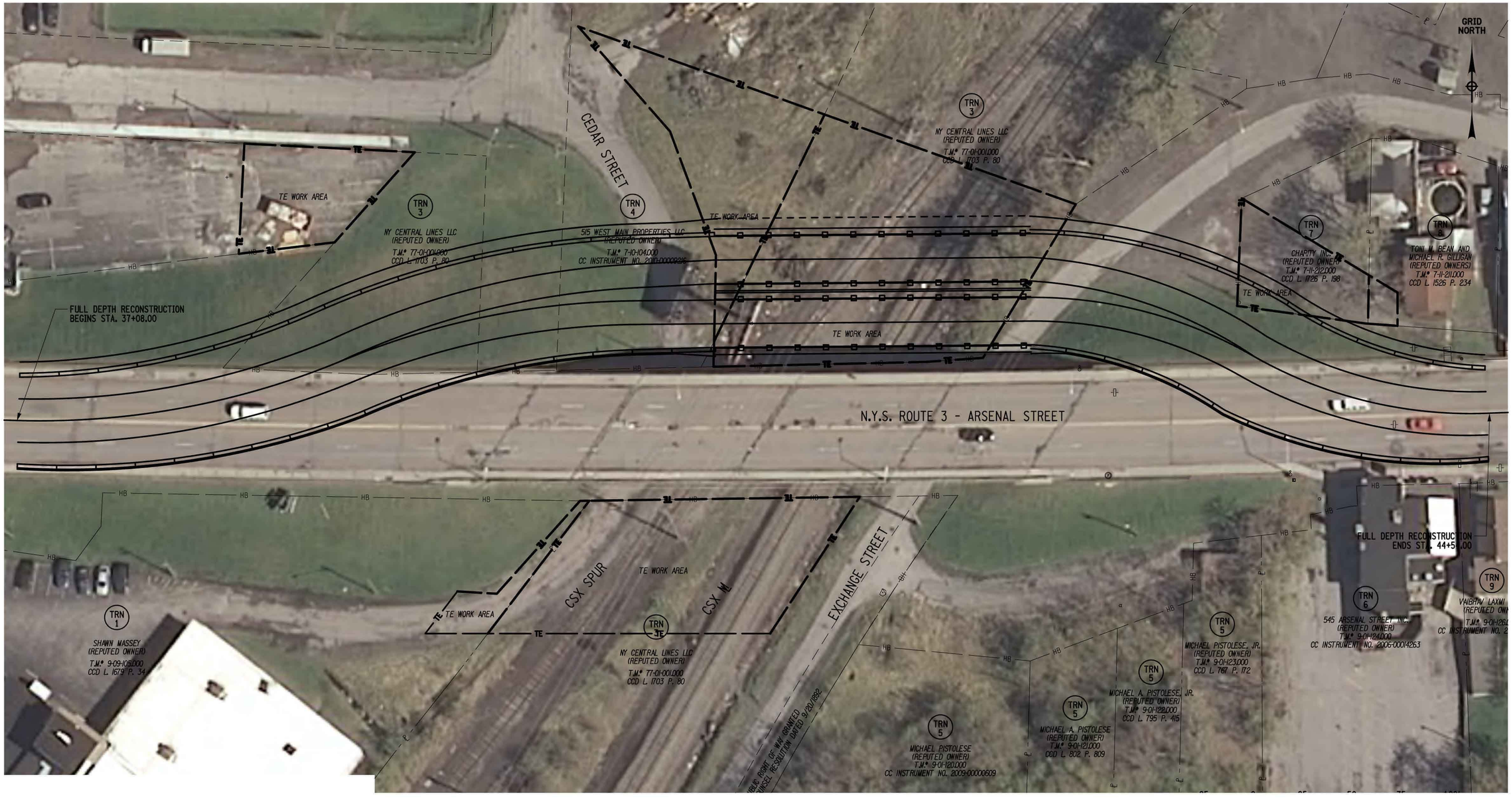
1. Northern On-Site Diversion for Maintaining Traffic

2. Aesthetics

3. Project Limits

4. Schedule
    - Public Hearing is scheduled for:
      Wednesday - March 1, 2017, 6:30 – 7:30 pm
      1st Floor Dulles State Office Bldg.

    - Design Approval: April 2017
    - Contract Letting: April 2019
    - Completion: Late Fall 2020



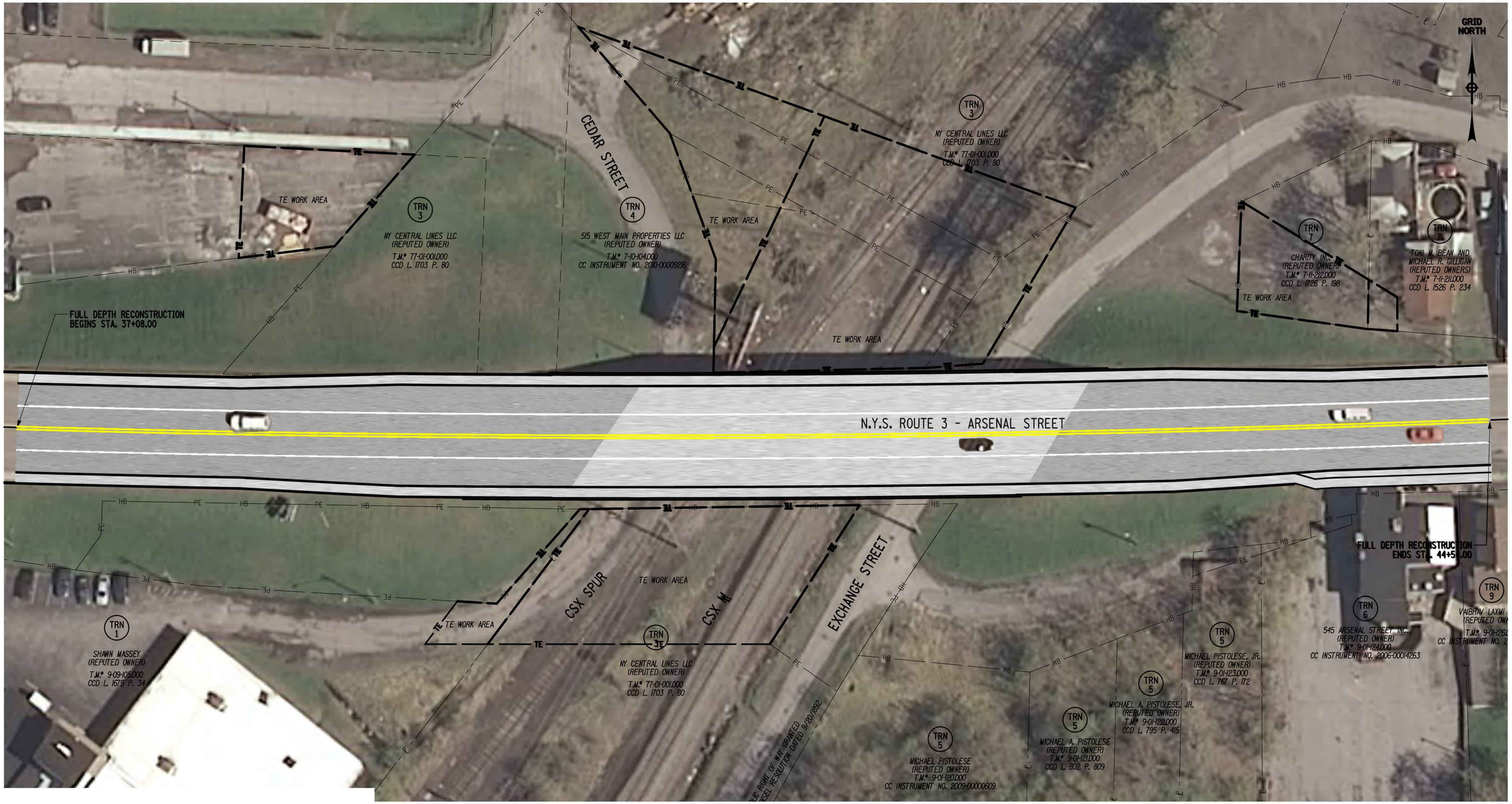
On-Site Diversion Plan View

NEW YORK STATE OF OPPORTUNITY. Department of Transportation

NYS Rte 3 Arsenal St. over CSX Railroad

Watertown, NY

THE CITY OF WATERTOWN NEW YORK



Plan View

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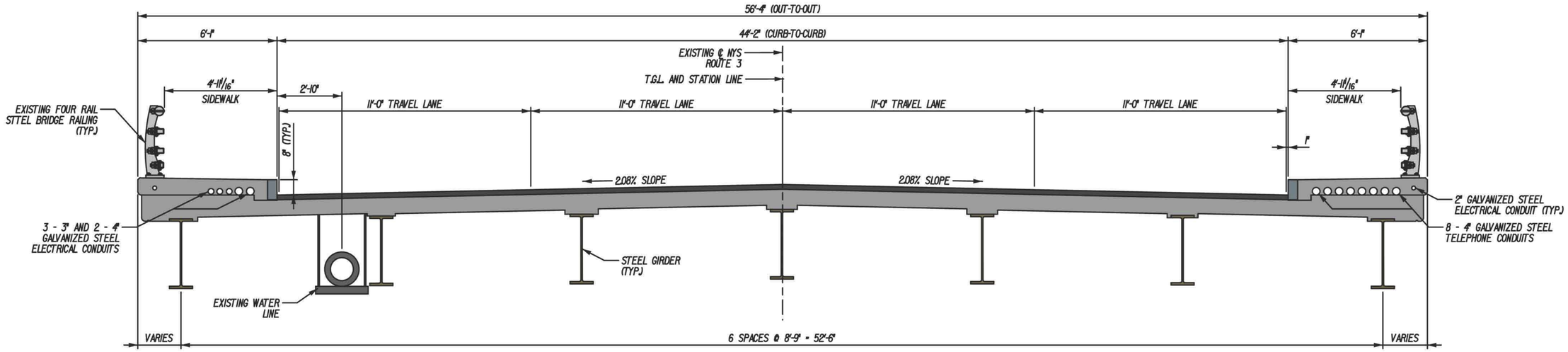
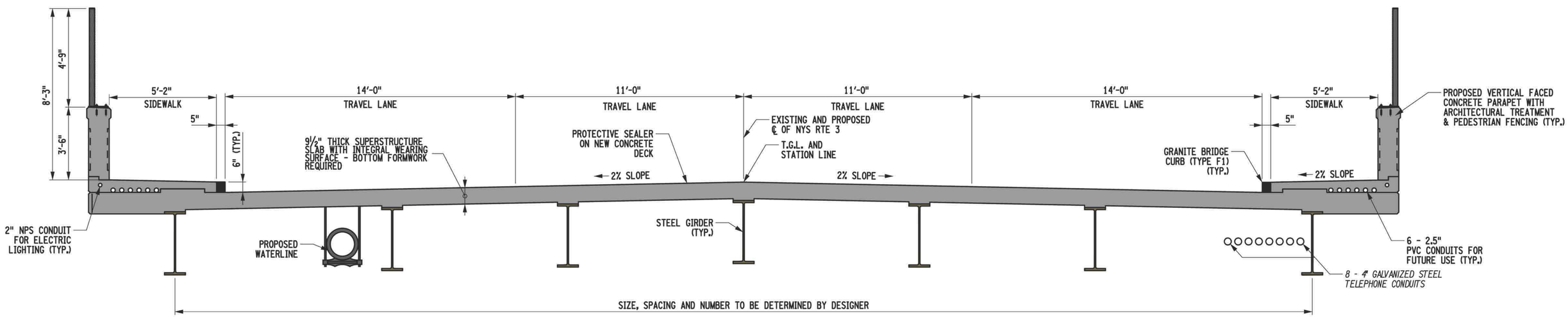
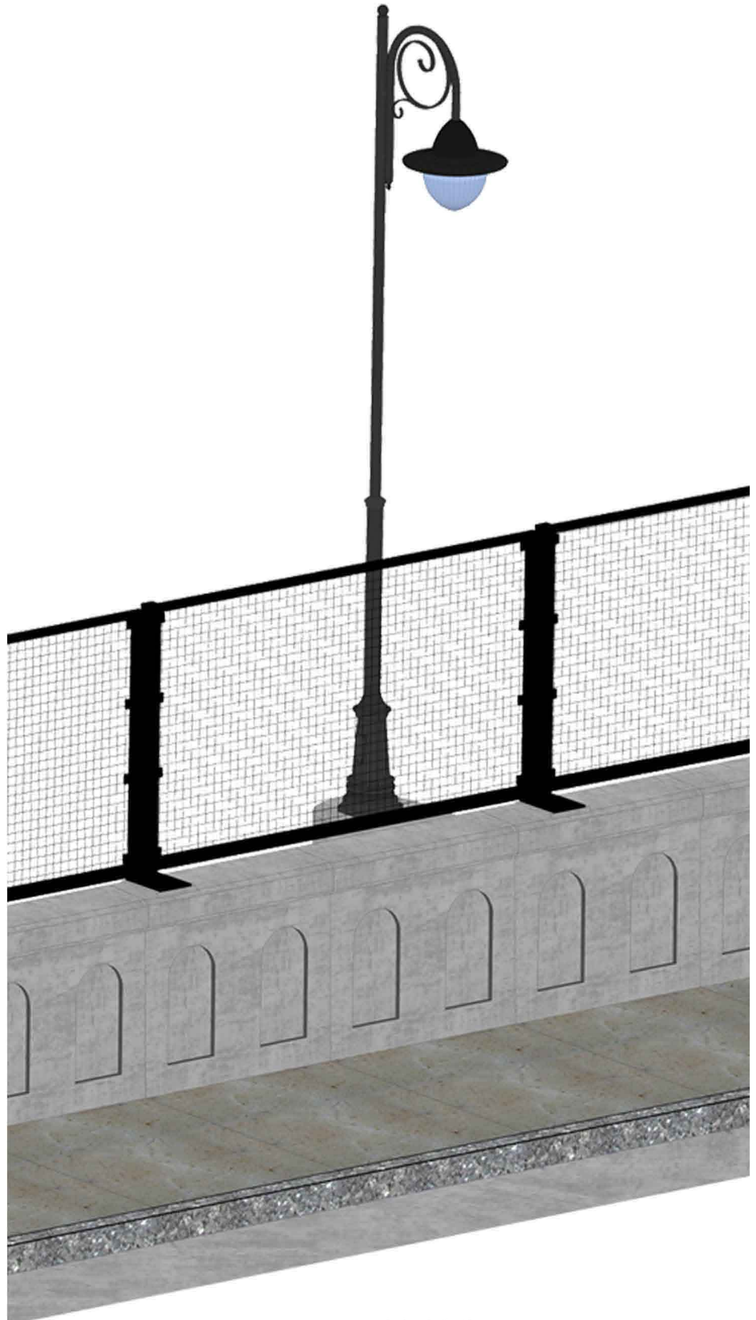


EXISTING BRIDGE SECTION
(NOT TO SCALE)



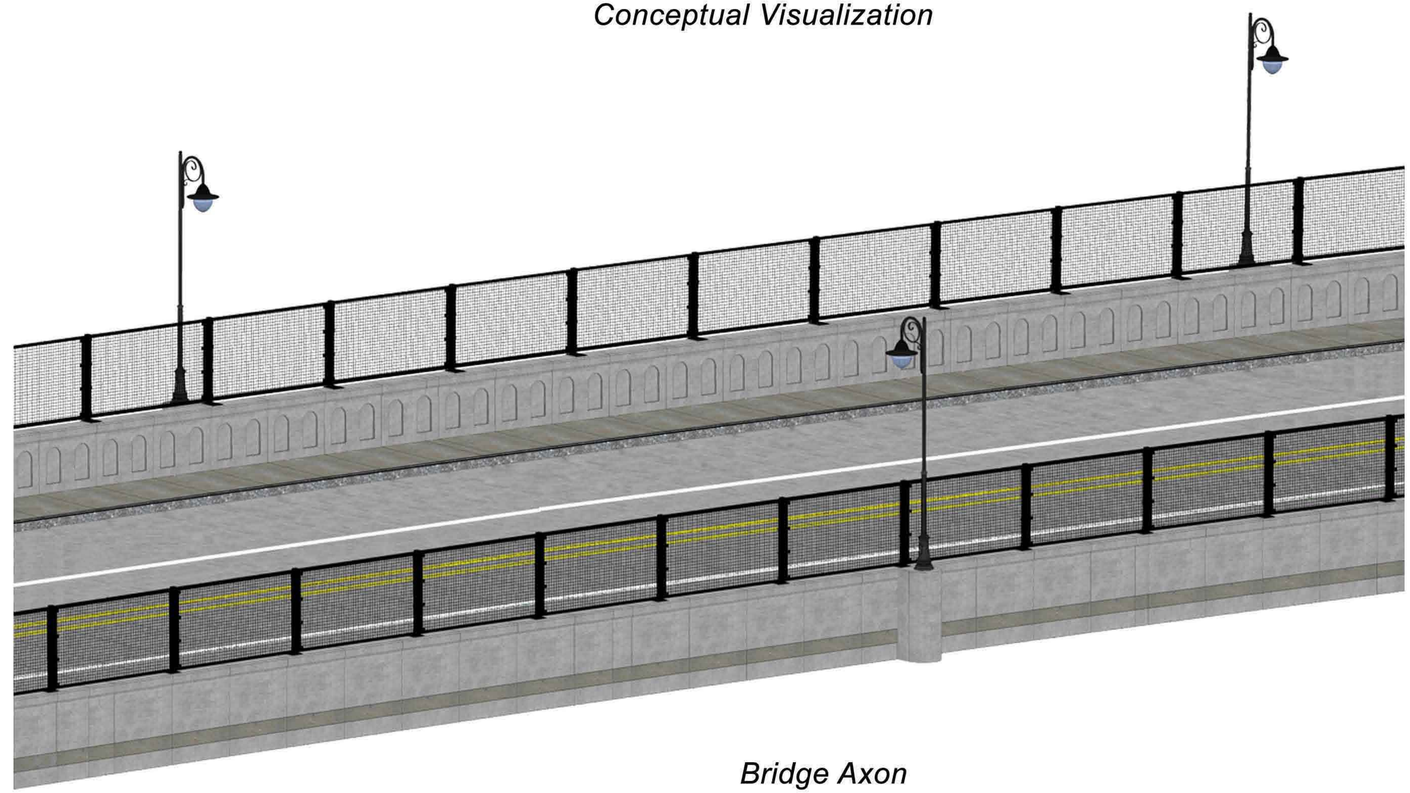
PROPOSED BRIDGE SECTION
(NOT TO SCALE)

Bridge Section



Light Axon

Conceptual Visualization



Bridge Axon

NEW YORK STATE OF OPPORTUNITY. Department of Transportation

NYS Rte 3 Arsenal St. over CSX Railroad

Watertown, NY

THE CITY OF WATERTOWN NEW YORK

January 20, 2017

To: The Honorable Mayor and City Council

From: Sharon Addison, City Manager

Subject: Fiscal Year 2017-18 Preliminary Budget Overview

The development of the Fiscal Year 2017-18 Budget for the City will be a difficult one. Staff is presently working on submitting their departmental proposed Fiscal Year 2017-18 capital and operating budgets by the end of this month. This report is intended to serve as a general framework of the financial issues and challenges facing the City. This report is meant to provide a general overview of some of the larger revenue and expense items. Amounts presented within this report are either general estimates to provide context or very preliminary forecasts for next year and are subject to change as staff further analyzes them over the next few months.

GENERAL FUND

Property Tax Cap

The projected tax cap is indicating that the maximum the property tax levy can increase is $132,000 or 1.53%. This is an estimate as the NYS Office of the State Comptroller has not issued the inflation factor for the City's budget year. Also, two new sidewalk districts begin paying their installments next fiscal year which still needs to be accounted for as part of the tax cap calculation. The amounts relevied for the ten-year special assessment sidewalk districts count as part of the City's levy for tax cap purposes.

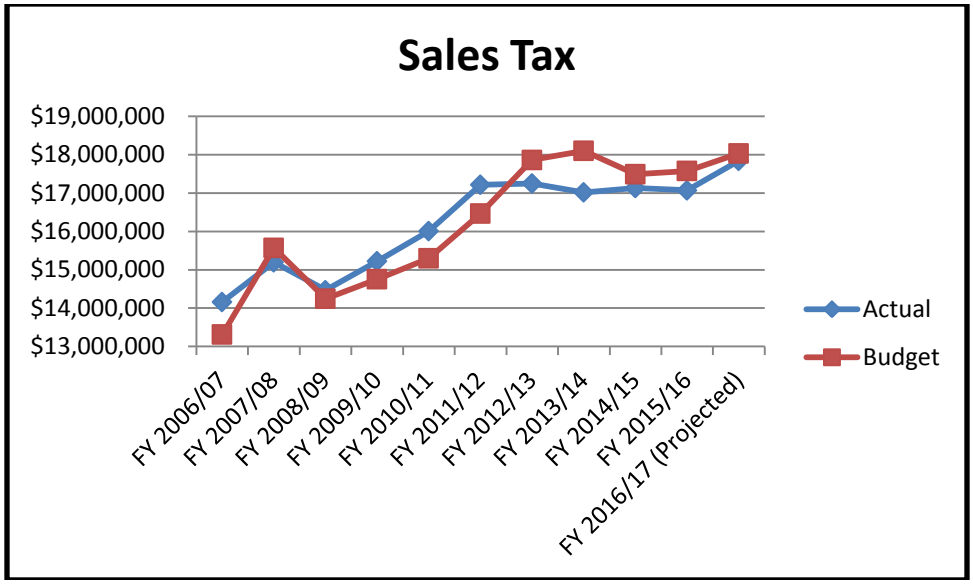
	FY 2017-18	FY 2016-17	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13
Prior Year Adopted Tax Levy	$ 8,769,096	$ 8,465,927	$ 8,323,710	$ 7,520,705	$ 7,373,612	$ 7,300,409
Tax Base Growth Factor	1.0028	1.0077	1.0038	1.0105	1.0124	1.0051
Subtotal	$ 8,793,650	$ 8,531,114	$ 8,355,340	$ 7,599,672	$ 7,465,045	$ 7,337,641
Prior year PILOTs	162,500	152,000	139,125	147,850	144,300	154,991
Subtotal	8,956,150	8,683,114	8,494,465	7,747,522	7,609,345	7,492,632
Allowable Levy Growth Factor	1.15%	0.12%	1.62%	1.46%	2.00%	2.00%
Subtotal	9,059,146	8,693,534	8,632,075	7,860,636	7,761,532	7,642,485
Current year PILOTs	(157,130)	(162,500)	(152,000)	(139,125)	(147,850)	(144,300)
Available Carryover from Prior Year	-	14,148	-	115,892	112,473	-
Tax Levy Limit Before Adjustments / Exclusions	$ 8,902,016	$ 8,545,182	$ 8,480,075	$ 7,837,403	$ 7,726,155	$ 7,498,185
Employees Retirement System Contribution Allowance	-	-	-	-	-	47,800
Police and Fire Retirement System Contribution Allowance	-	-	-	-	113,430	210,074
Tax Levy Limit	$ 8,902,016	$ 8,545,182	$ 8,480,075	$ 7,837,403	$ 7,839,585	$ 7,756,059
Tax Levy Increase Allowable per Tax Cap Calculation	$ 132,920	$ 79,255	$ 156,365	$ 316,698	$ 465,973	$ 455,650
Percent Tax Levy Increase Allowable per Tax Cap Calculation	1.52%	0.94%	1.88%	4.21%	6.32%	6.24%
Actual Levy Increase		4.00%	1.88%	10.40%	2.00%	1.00%

Taxable Assessed Valuation

The tentative taxable assessed values increased by $5,114,630 or 0.48%. The final assessed value with reductions authorized by the Board of Assessment Review will not be known until the final assessment roll is filed March 31st.

Sales Tax Revenue

Sales tax revenue continues to lag behind budget projections. Fiscal Year 2017-18 is projecting to be the fifth straight under-performing year. Caution should be had when forecasting next year's sales tax growth. The U.S./Canadian dollar exchange rate is forecasted to drop to $.65 in 2017. If sales tax grows 2% over last year for the remaining months of the current fiscal year and then increase that total by a 2% growth factor the resulting projected sales tax budget for next year would be $18,200,000.

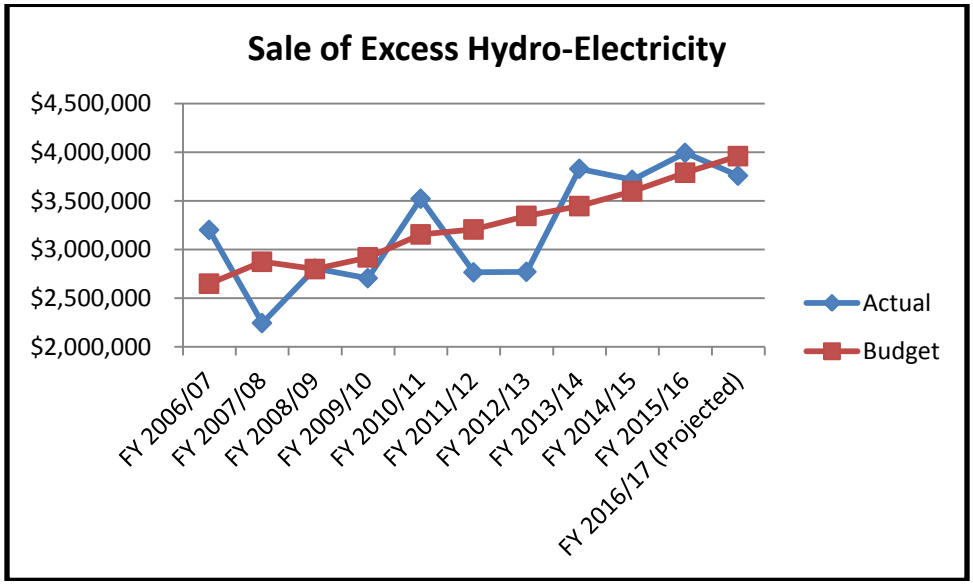


	ACTUAL / PROJECTED	BUDGET	Variance
FY 16-17	$ 17,837,579	$ 18,030,000	$ (192,421)
FY 15-16	$ 17,068,193	$ 17,575,000	$ (506,807)
FY 14-15	$ 17,129,685	$ 17,490,000	$ (360,315)
FY 13-14	$ 17,017,001	$ 18,100,000	$ (1,082,999)
FY 12-13	$ 17,247,801	$ 17,860,000	$ (612,199)
FY 11-12	$ 17,215,058	$ 16,465,000	$ 750,058
FY 10-11	$ 16,007,070	$ 15,300,000	$ 707,070
FY 09-10	$ 15,223,095	$ 14,755,000	$ 468,095
FY 08-09	$ 14,466,732	$ 14,248,138	$ 218,594
FY 07-08	$ 15,194,501	$ 15,570,000	$ (375,499)
FY 06-07	$ 14,159,944	$ 13,315,000	$ 844,944

Canadian /U.S. Dollar Exchange Rate 5 Year Trend (source Bloomberg Markets)

Sale of Hydro-Electricity

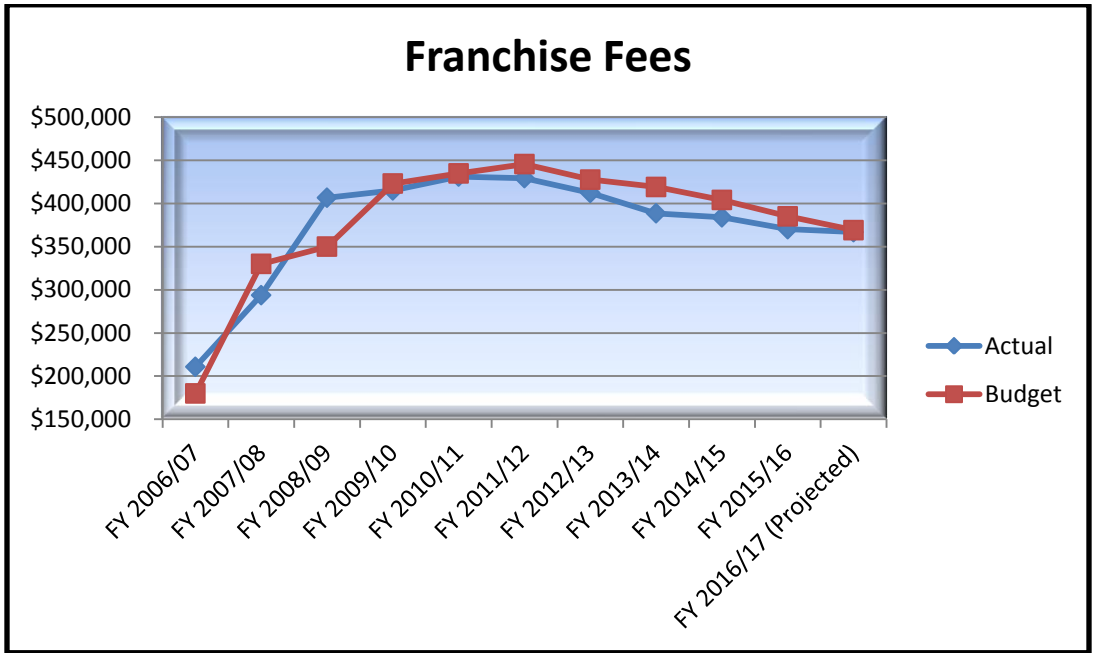
A more in-depth analysis will be taken in formulating next year's budget for the sale of hydro-electricity in light of the prior period accounting adjustment that was made in Fiscal Year 2015-16. Accordingly, it is possible that this revenue line item will be even less than the amount budgeted for Fiscal Year 2016-17.



	ACTUAL / PROJECTED	BUDGET	Variance
FY 16-17	$ 3,759,560	$ 3,960,000	$ (200,440)
FY 15-16	$ 3,993,988	$ 3,790,000	$ 203,988
FY 14-15	$ 3,716,931	$ 3,600,000	$ 116,931
FY 13-14	$ 3,830,277	$ 3,447,000	$ 383,277
FY 12-13	$ 2,771,633	$ 3,346,000	$ (574,367)
FY 11-12	$ 2,766,103	$ 3,207,000	$ (440,897)
FY 10-11	$ 3,522,437	$ 3,156,000	$ 366,437
FY 09-10	$ 2,706,571	$ 2,920,000	$ (213,429)
FY 08-09	$ 2,805,326	$ 2,800,000	$ 5,326
FY 07-08	$ 2,245,099	$ 2,875,000	$ (629,901)
FY 06-07	$ 3,201,606	$ 2,650,000	$ 551,606

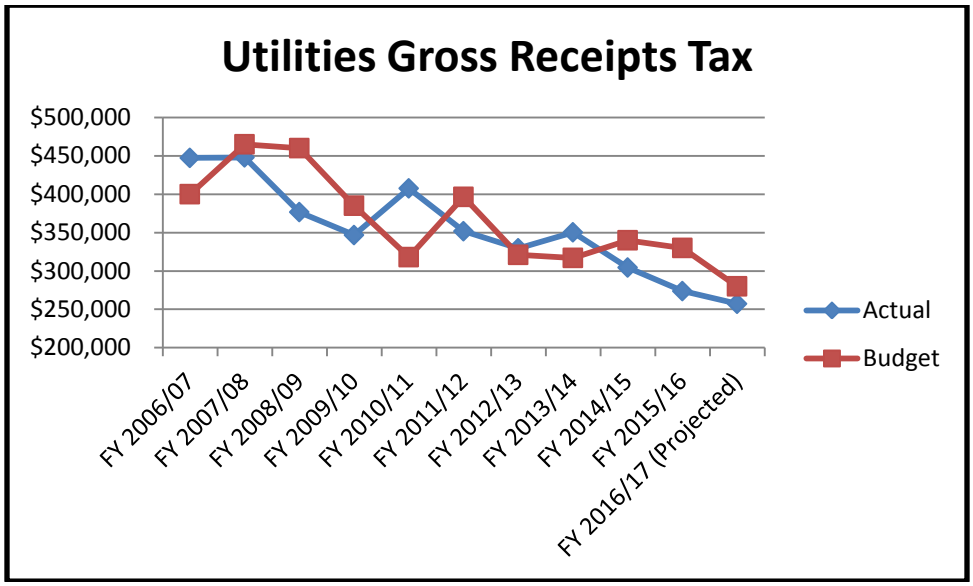
Franchise Fees

The City receives 5% of the gross revenue earned by Spectrum Charter Communications (formerly Time Warner) from its subscribers in the City. Franchise fee revenue from this agreement has been steadily declining over the last five-plus years. Prior to Fiscal Year 2007-08 the City only received 3% of the gross revenue. Franchise fees are governed by Section 622 of the Federal Cable Act which entitles municipalities to a maximum of 5% of the gross revenues derived from the operation of the cable system for the provision of cable services.

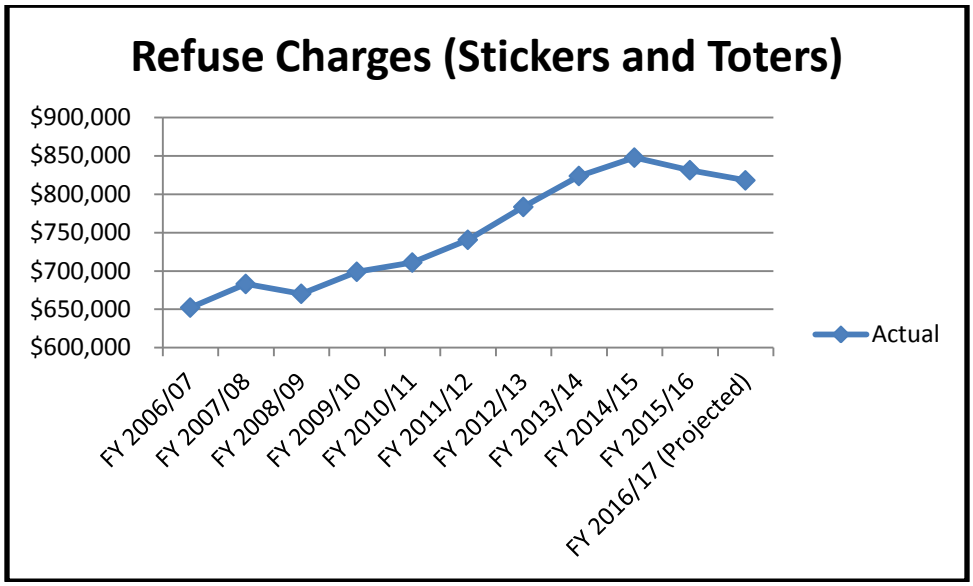


Utilities Gross Receipts Tax

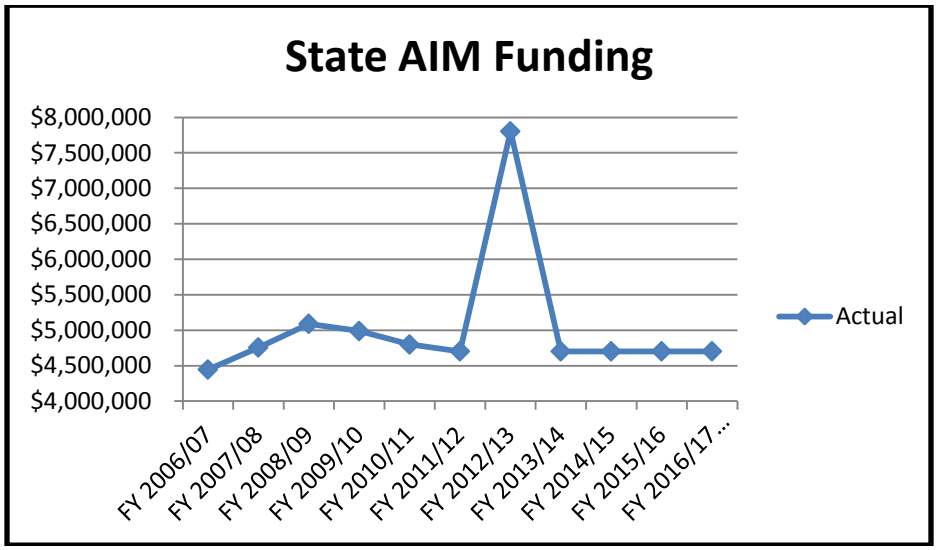
In accordance with NYS General City Law Section 20-b the City imposes the maximum 1% tax on the gross receipts of utility company sales for gas, electric and telephone. This tax revenue is significantly less than it was 5-10 years ago.



Refuse Charges
The City provides a curbside trash pick-up on a weekly basis for residents purchasing the blue stickers or who have signed up for City-provided trash carts. The recent decline is subject to more vacant houses and less trash generation per household. The fact that the City does not offer single stream recycling has a negative effect on new customers, especially those using toters.



State Aid Revenue Sharing
The Governor's Proposed 2017-18 New York State Budget keeps the City's level of AIM funding $4,703,208. In the State's financial plan no increases to AIM are forecasted for any of the next three State fiscal years.



Capital Reserve Fund Balance

	Expenditures	Balance
FY 2019/20 (Projected)	$ 76,000	$ 23,993
FY 2018/19 (Projected)	$ 285,000	$ 99,993
FY 2017/18 (Projected)	$ 380,000	$ 384,993
FY 2016/17 (Projected)	$ 570,000	$ 764,993
FY 2015/16	$ 458,316	$ 1,334,993
FY 2014/15	$ 244,444	$ 1,793,309
FY 2013/14	$ 1,062,269	$ 2,037,753
FY 2012/13	$ -	$ 3,100,022

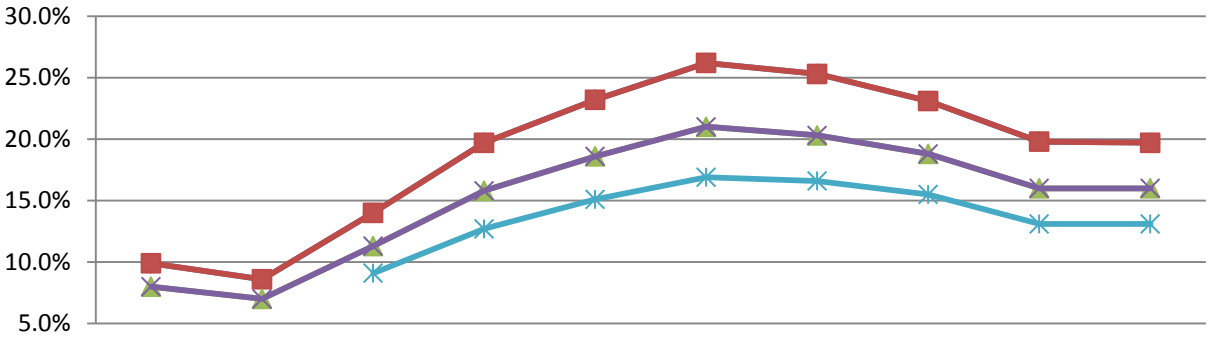
Personal Services

Presently only the IBEW union has a contract that will not be expired on July 1, 2017. For Fiscal Year 2017-18 IBEW members will receive a 1.75% wage increase. For those employees without a binding labor agreement an estimated 1% - 2% wage increase will be budgeted within the contingency line item.

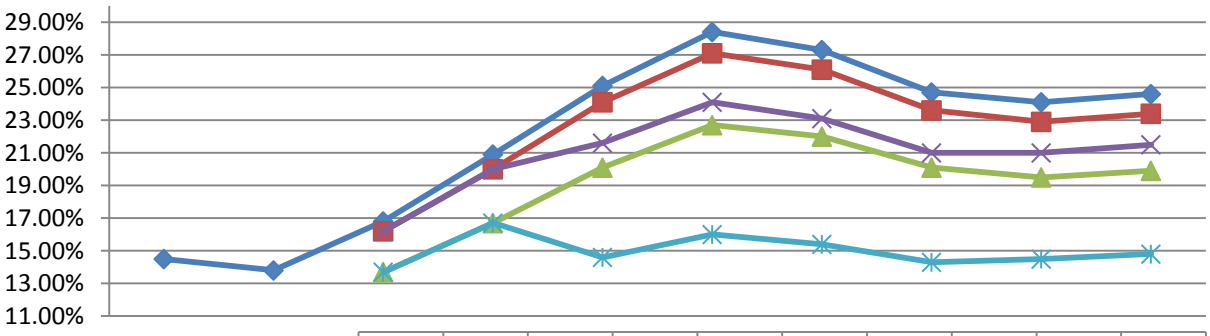
Percentage Salary Increases 2001-2019					
Fiscal Year	**Police**	**Fire**	**CSEA**	**Management**	**I.B.E.W.**
2001-02	3.00%	3.50%	2.00%	3.50%	3.50%
2002-03	3.00%	3.00%	3.50%	1.00%	3.00%
2003-04	3.50%	3.00%	3.25%	2.00%	3.00%
2004-05	3.00%	3.00%	2.50%	3.00%	2.50%
2005-06	3.00%	3.50%	3.00%	3.00%	3.00%
2006-07	4.00%	4.00%	3.00%	4.00%	3.00%
2007-08	4.00%	4.00%	3.00%	3.50%	3.25%
2008-09	3.50%	3.50%	2.50%	3.00%	3.25%
2009-10	2.50%	0.00%	2.50%	2.00%	3.25%
2010-11	2.50%	3.00%	1.50%	1.50%	0.00%
2011-12	2.00%	2.00%	1.50%	1.00%	2.00%
2012-13	2.00%	2.00%	2.00%	1.00%	2.50%
2013-14	2.00%	2.00%	2.00%	2.00%	1.50%
2014-15	1.50%	?	1.50%	0.00%	1.50%
2015-16	2.50%	?	2.50%	3.00%	1.50%
2016-17	2.50%	?	2.50%	1.75%	2.00%
2017-18	?	?	?	?	1.75%
2018-19					1.75%
Cumulative Increase	**44.50%**	**36.50%**	**38.75%**	**35.25%**	**42.25%**

Retirement Rates

The Employees' Retirement System rates held steady at last year's rates. The Police and Fire Retirement System rates did increase slightly. The State's rate forecast indicates only a slight reduction (less than one percentage point) in retirement system contribution rates over the next few years.



	2/1/09	2/1/10	2/1/11	2/1/12	2/1/13	2/1/14	2/1/15	2/1/16	2/1/17	2/1/18
Tier 2	9.9%	8.6%	14.0%	19.7%	23.2%	26.2%	25.3%	23.1%	19.8%	19.7%
Tier 3	9.9%	8.6%	14.0%	19.7%	23.2%	26.2%	25.3%	23.1%	19.8%	19.7%
Tier 4	8.0%	7.0%	11.3%	15.8%	18.6%	21.0%	20.3%	18.8%	16.0%	16.0%
Tier 5	8.0%	7.0%	11.3%	15.8%	18.6%	21.0%	20.3%	18.8%	16.0%	16.0%
Tier 6			9.1%	12.7%	15.1%	16.9%	16.6%	15.5%	13.1%	13.1%



	2/1/09	2/1/10	2/1/11	2/1/12	2/1/13	2/1/14	2/1/15	2/1/16	2/1/17	2/1/18
Tier 2	14.5%	13.8%	16.8%	20.9%	25.1%	28.4%	27.3%	24.7%	24.1%	24.6%
Tier 5 (non-contributory)			16.2%	20.0%	24.1%	27.1%	26.1%	23.6%	22.9%	23.4%
Tier 5 (contributory)			13.7%	16.7%	20.1%	22.7%	22.0%	20.1%	19.5%	19.9%
Tier 6 (non-contributory)			16.2%	20.0%	21.6%	24.1%	23.1%	21.0%	21.0%	21.5%
Tier 6 (contributory)			13.7%	16.7%	14.6%	16.0%	15.4%	14.3%	14.5%	14.8%

Health Insurance

Fiscal Year 2016-17 has seen significantly higher health care costs which are not expected to decrease any time soon. Premium increases for Fiscal Year 2017-18 are projected to be double-digit percentage increases. Please refer to the health insurance report provided by Matt Roy, Human Resources Manager. Based on his report Fiscal Year 2016-17 is projected to incur a loss of nearly $670,000 leaving the self-insurance fund balance at approximately $1,000,000.

Revenue Overview

GENERAL FUND REVENUES, APPROPRIATED RESERVES AND FUND BALANCE						
	FY 2016-17 Adopted Budget	% of Total	Estimated Increase/ Decrease	FY 2017-18 Preliminary Budget	% of Total	Increase / (Decrease)
Sales Tax	$18,030,000	42.97%	0.94%	$18,200,000	43.31%	$ 170,000
Property Tax	8,751,251	20.86%	1.52%	8,884,171	21.14%	132,920
State Aid	4,703,208	11.21%	0.00%	4,703,208	11.19%	-
Sale of Excess Hydro-Electricity	3,960,000	9.44%	-4.42%	3,785,000	9.01%	(175,000)
Bus Related Aid and Fares	883,550	2.11%	-3.57%	852,000	2.03%	(31,550)
Refuse	838,000	2.00%	-0.72%	832,000	1.98%	(6,000)
Cable Franchise Fees	369,000	0.88%	-7.05%	343,000	0.82%	(26,000)
Interfund Transfers (mostly Hotel Occupancy Tax)	326,000	0.78%	-37.00%	331,000	0.79%	5,000
Mortgage Tax	325,000	0.77%	0.00%	325,000	0.77%	-
All Other Revenues	2,565,162	6.11%	0.00%	2,565,162	6.10%	-
Total Revenues	**40,751,171**	**97.13%**	**0.17%**	**40,820,541**	**97.14%**	**69,370**
Appropriated Fund Balance	646,218	1.53%	0.00%	646,218	1.54%	-
Appropriated Capital Reserve	525,000	1.25%	0.00%	525,000	1.25%	-
All Other Appropriated Reserves	33,845	0.08%	0.00%	33,845	0.08%	-
Total Revenues and Appropriated Fund Balances	**$41,956,234**	**100.00%**	**0.17%**	**$42,025,604**	**100.00%**	**$ 69,370**

Expense Overview

GENERAL FUND						
	FY 2016-17 Adopted Budget	% of Total	Estimated Increase/ Decrease	FY 2017-18 Preliminary Budget	% of Total	Increase / (Decrease)
Personal Services	$16,547,789	39.44%	1.50%	$16,796,006	38.50%	$ 248,217
Retirement System	3,410,243	8.13%	1.50%	$ 3,461,397	7.93%	51,154
Health Insurance	6,970,975	16.61%	15.00%	$ 8,016,621	18.37%	1,045,646
Social Security	1,265,913	3.02%	1.50%	$ 1,284,902	2.94%	18,989
Workers Compensation	672,000	1.60%	2.00%	$ 685,440	1.57%	13,440
All Other Fringe Benefits	20,000	0.05%	2.00%	$ 20,400	0.05%	400
Equipment	488,015	1.16%	2.00%	$ 497,775	1.14%	9,760
Operating Expenses	7,479,056	17.83%	0.00%	$ 7,479,056	17.14%	-
Transfer to Library Fund	1,148,599	2.74%	25.00%	$ 1,435,749	3.29%	287,150
Transfer to Capital Fund	916,500	2.18%	0.00%	$ 916,500	2.10%	-
Transfer to Reserve Funds	75,000	0.18%	0.00%	$ 75,000	0.17%	-
Debt Service	2,962,144	7.06%	0.00%	$ 2,962,144	6.79%	-
	$41,956,234	100.00%	3.99%	$43,630,990	100.00%	$ 1,674,756

Capital Projects

- **Library HVAC:** Project estimate is currently nearly $1,500,000. Debt service is projected to begin in Fiscal Year 2017-18 for approximately $195,000 which is captured in the Transfer to Library Fund in the Expenditures and Transfers chart.

- **City Court Renovation/Relocation:** Project estimates range from $2,500,000 to $3,000,000 and do not consider property acquisition, operating costs or lease obligations depending on the location of build. Debt service is projected to begin in Fiscal Year 2018-19 for approximately $250,000 - $300,000. City Hall's air handler replacement project for approximately $200,000 will proceed in Fiscal Year 2017-18 if the location for City Court is other than City Hall.

- **Thompson Park Projects:** The Splash Pad project estimate is $440,000 and will be budgeted in FY2017-18 with a committed private match of 50% of the costs. Future projects of greater scope and cost, such as the Bathhouse, Pool and Visitor Center, should be advanced with a similar private/public match model with input from the Friends of Thompson Park Committee.

- **Arena**: Completion of modifications to the Arena and the ultimate cost responsibility is still to be determined.

Moody's Investors Service Rating
Moody's latest rating is attached for reference. The City did not get rated by Moody's in 2016 as it issued a bond anticipation note which does not require a rating. Their comments remain valid and must be considered with the development and management of the City's financial future.

Fiscal Year 2017-18 Budget Parameters:
The data presented within this report represents our best estimates for projected revenues and expenditures at this time. It would be advantageous to obtain Council's input on the following:

- Will to exceed the Property Tax Cap
- Prioritization of Capital projects
- Proposed Management Wage increase
- Other

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Watertown, NY's $15.8M GOLT Bonds

Global Credit Research - 16 Jun 2015

Aa3 rating affirmed on $26M of parity debt

WATERTOWN (CITY OF) NY
Cities (including Towns, Villages and Townships)
NY

Moody's Rating

ISSUE	RATING
Public Improvement (Serial) Bonds, 2015 Series B	Aa3
Sale Amount $5,810,000	
Expected Sale Date 06/17/15	
Rating Description General Obligation Limited Tax	
Public Improvement (Serial) Bonds, 2015 Series A	Aa3
Sale Amount $10,000,000	
Expected Sale Date 06/17/15	
Rating Description General Obligation Limited Tax	

Moody's Outlook NOO

NEW YORK, June 16, 2015 --Moody's Investors Service has assigned a Aa3 rating to the City of Watertown's (NY) $10.0 million Public Improvement (Serial) Bonds, 2015 Series A and $5.8 million Public Improvement (Serial) Bonds, 2015 Series B. Concurrently, Moody's affirms the Aa3 rating on $26 million in outstanding general obligation debt.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's solid financial reserves despite volatile revenue sources. The rating also incorporates the city's elevated debt burden following the current issuance, and a modestly sized tax base that is growing but exhibits below average income and wealth levels, partially reflecting the presence of the Fort Drum United States military base.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Significant growth in the underlying tax base

WHAT COULD MAKE THE RATING GO DOWN

- Fund balance declines beyond expected levels for fiscal 2015 and 2016

- Failure to structurally balance fiscal 2017 budget

STRENGTHS

- Solid cash levels and financial reserves

- U.S. Army base at Fort Drum provides stability to economy

CHALLENGES

- Exposure to volatile revenue sources

- Below average socio-economic characteristics

- High fixed costs

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: TAX BASE BOLSTERED BY GOVERNMENT, FORT DRUM MILITARY BASE

The city's $1.2 billion tax base relies heavily on government and military presence. Wealth levels in the city are below average, with the median family income as of 2012 equal to 81% of the US median. Offsetting the below average wealth is the stabilizing presence of the Fort Drum military base. Although not located within the city limits, Fort Drum is located 7 miles from the city center, and houses 42% of those soldiers living off post. An estimated 17,269 soldiers and 3,799 civilians were employed at Fort Drum as of fiscal 2014. The base is also a major customer for the city's water and sewer operations.

Government is the largest employer in the city. Federal, state, and county government entities have offices in Watertown, which is the county seat. Other large employers in the city include the Samaritan Medical Center, which employs 2,500 people, as well as various manufacturers. The city's unemployment rate of 5.8% as of March 2015 was on par with the state unemployment rate.

Measures of property wealth are very below average. Full value per capita is equal to $42,222, which is well below the median for New York cities. However, we believe this is largely due to the considerable amount of tax-exempt property within the city (approximately 31%). Despite being below average for this rating category, the tax base is healthy and has been growing.

FINANCIAL OPERATIONS AND RESERVES: STRONG MANAGEMENT PRACTICES COPE WITH UNDERPERFORMING SALES TAX REVENUES

The city's financial position remains solid despite reserve draws in three of the last four years and the expectation of draws in 2015 and 2016. Sales tax revenues, which make up 42% of the city's budget, are underperforming and are aggressively budgeted for fiscal 2016. While the base provides some stability in the city's sales tax revenues, a strengthening US dollar has reduced the amount of cross border traffic with Canada. Property taxes (20%), state aid (14%), and 10% from sales of excess power from a hydroelectric plant on the Black River make up the majority of the remaining revenues. To balance stagnant sales tax revenues and state aid management has raised property taxes in each of the 5 years, including 1 year where they pierced the property tax cap. Sales of hydroelectricity are entirely dependent on the flows of the Black River, which are difficult to predict.

The city finished fiscal 2014 with a $330,000 General Fund operating deficit balance due primarily to underperforming sales tax, which were $17.0 million or 5.98% below budget. Despite this, the city achieved savings through freezes on equipment purchases as well as limiting its pay as you go capital projects.

For fiscal 2015, the city reduced its sales tax estimate to $17.5 million, which represented a decrease of $610,000 or 3.4% below the 2014 budget. Despite this, management reports sales tax receipts through the first 10 months of the year are trending below budget by $294,000. The city originally budgeted for the use of $891,000 of reserves, including the self-insurance fund, and expects to use approximately $600,000 of the appropriation. Assuming this appropriation, total fund balance would be reduced to $15.3 million or a still strong 37.9% of budgeted 2015 revenues.

For fiscal 2016, the city's budget includes a 3.43% spending increase, 1.88% tax levy increase, a 2% increase in sales tax over the 2015 expected ending amount, and flat state aid. The 2016 budget was balanced with $1.9 million use of reserves. Utilizing the full budgeted appropriation would bring total fund balance to $13.4 million or 32.2% of budgeted 2016 revenues. We will monitor the city's ability to maintain strong reserves going forward. A deviation from the fund balance estimates above could result in negative rating action.

Liquidity

The city's cash position as of fiscal 2014 was healthy at $16.9 million, or 42.5% of revenues. Liquidity was also healthy at the city's water and sewer funds, which had a combined $3.7 million in unrestricted cash, accounting for 36.3% of fiscal 2014 revenues.

DEBT AND PENSIONS: MODERATE DEBT BURDEN PARTLY SUPPORTED BY ENTERPRISE REVENUES; MODERATE PENSION BURDEN

The city's direct debt burden, at 2.6% of full value and 0.76 times revenues, is relatively high for the rating category and is expected to remain elevated due to ongoing capital needs. Within the next year, the city anticipates borrowing approximately $3.5 - 4 million to build a courtroom, purchase a fire engine, as well as other water and sewer upgrades and street reconstruction. The expected future issuances are partially offset by the city's rapid amortization of currently outstanding principal is above average with 91% paid within 10 years. The city's debt service is manageable at 6.6% of 2014 operating expenditures.

Debt Structure

All of Watertown's debt is fixed rate. After the current issue, the city will have $30.3 million of long-term GO debt, all of which is rated. Approximately $11.6 million of the city's debt is payable through its water and sewer operations, which are financially healthy and are excluded from the net debt burden calculations. Without excluding this self-supporting debt, the net direct debt burden would increase to 3.6% of full value.

Debt-Related Derivatives

Watertown has no derivatives.

Pensions and OPEB

While pension contributions have increased over the past five years, management has budgeted for the increases and has not opted to defer its pension payments. The city participates in the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System (PFRS), two multi-employer defined benefit retirement plans sponsored by the State of New York (Aa1 stable). The city's combined adjusted net pension liability for 2013, under Moody's methodology for adjusting reported pension data, was $66.6 million, or an above average 1.6 times total operating revenues. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city also provides employees with Other Postemployment Benefits (OPEB) and as of fiscal 2013, had an unfunded actuarial liability of $13.6 million, or 0.34 times operating revenues. The city does annual pay-as-you-go contributions which totaled $3.8 million in fiscal 2014 was 55% of the total OPEB cost and 9.5% of annual operating expenditures.

The city's total fixed costs for 2014 including pension, OPEB and debt service totaled $10.6 million, or a high 26% of operating expenditures.

MANAGEMENT AND GOVERNANCE: CITY TO BE CHALLENGED TO RETURN TO STRUCTURAL BALANCE

City management has typically budgeted expenditures conservatively revenue estimates have been falling short of budgeted expectations. The city also does detailed multi-year forecasting based on such as indicators such as CPI, or based on collective bargaining agreements. While management increased the tax levy beyond the cap via override in fiscal 2015 with a 10.5% levy increase and reduced its budgeted expenditures by 3.2%, sales tax receipts continue to underperform and are expected to remain weak, which we believe will challenge the city to return to structural balance in the near term.

New York cities, towns and villages have an institutional framework score of 'A' or moderate. Revenues are largely comprised of property, sales, and mortgage taxes, as well as building permits. Property tax revenues are subject to the tax cap but can be overridden with a 60% vote of the local legislative body. Economically sensitive revenues remain below peak levels prior to recession. Expenditures are largely predictable but the presence of strong collective bargaining groups make it difficult to reduce expenditures.

KEY STATISTICS

-2015 Full value: $1.2 billion

-2015 Full value per capita: $42,222

-2008-2012 Median Family Income (American Community Survey 5-Year Estimates): 81% of US average

-Fiscal 2014 Available Operating Fund balance as a % of Revenues: 32.0% of operating revenue

-5-year change in Operating fund balance as a % of Revenues: 2.5%

-Fiscal 2014 Operating net cash balance as a % of revenues: 42.5% of operating revenues

-5-year change in Operating cash balance as a % of revenues: 12.0%

-Institutional Framework: A

-Five-year average of operating revenues / operating expenditures: 1.01 times

-Net direct debt as % of full value: 2.6%

-Net direct debt/operating revenues: 0.76 times

-3-year average of Moody's adjusted net pension liability as % of full valuation: 3.5%

-3-year average of Moody's adjusted net pension liability / operating revenues: 1.0 times

OBLIGOR PROFILE

The city of Watertown has a population of 27,023 and is located in the northern part of New York State (Aa1 stable), eleven miles east of Lake Ontario and twenty-two miles south of the St. Lawrence River (and Canadian border).

LEGAL SECURITY

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

USE OF PROCEEDS

Proceeds of the Series A bonds will provide funding for the design and reconstruction and expansion of the Fairgrounds Arena. Proceeds of the Series B bonds will provide funding for various water and sewer projects and road reconstruction.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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January 23, 2017

To: The Honorable Mayor and City Council

From: Sharon Addison, City Manager

Subject: Fiscal Year 2017-18 Preliminary Budget Overview

Subsequent to the release of the Fiscal Year 2017-18 Preliminary Budget Overview report, the NYS Office of the State Comptroller released the allowable levy growth factor for the City's next fiscal year. The initial growth factor presented in the report was for municipalities with a June – May fiscal year.

Property Tax Cap

The projected tax cap is indicating that the maximum the property tax levy can increase is $143,696 or 1.64%. Two new sidewalk districts begin paying their installments next fiscal year which still needs to be accounted for as part of the tax cap calculation. The amounts relevied for the ten-year special assessment sidewalk districts count as part of the City's levy for tax cap purposes.

	FY 2017-18	FY 2016-17	FY 2015-16	FY 2014-15	FY 2013-14	FY 2012-13
Prior Year Adopted Tax Levy	$ 8,769,096	$ 8,465,927	$ 8,323,710	$ 7,520,705	$ 7,373,612	$ 7,300,409
Tax Base Growth Factor	1.0028	1.0077	1.0038	1.0105	1.0124	1.0051
Subtotal	$ 8,793,650	$ 8,531,114	$ 8,355,340	$ 7,599,672	$ 7,465,045	$ 7,337,641
Prior year PILOTs	162,500	152,000	139,125	147,850	144,300	154,991
Subtotal	8,956,150	8,683,114	8,494,465	7,747,522	7,609,345	7,492,632
Allowable Levy Growth Factor	1.26%	0.12%	1.62%	1.46%	2.00%	2.00%
Subtotal	9,068,997	8,693,534	8,632,075	7,860,636	7,761,532	7,642,485
Current year PILOTs	(157,130)	(162,500)	(152,000)	(139,125)	(147,850)	(144,300)
Available Carryover from Prior Year	-	14,148	-	115,892	112,473	-
Tax Levy Limit Before Adjustments / Exclusions	$ 8,911,867	$ 8,545,182	$ 8,480,075	$ 7,837,403	$ 7,726,155	$ 7,498,185
Employees Retirement System Contribution Allowance	-	-	-	-	-	47,800
Police and Fire Retirement System Contribution Allowance	-	-	-	-	113,430	210,074
Tax Levy Limit	$ 8,911,867	$ 8,545,182	$ 8,480,075	$ 7,837,403	$ 7,839,585	$ 7,756,059
Tax Levy Increase Allowable per Tax Cap Calculation	$ 142,771	$ 79,255	$ 156,365	$ 316,698	$ 465,973	$ 455,650
Percent Tax Levy Increase Allowable per Tax Cap Calculation	1.63%	0.94%	1.88%	4.21%	6.32%	6.24%
Actual Levy Increase		4.00%	1.88%	10.40%	2.00%	1.00%

Revenue Overview

GENERAL FUND REVENUES, APPROPRIATED RESERVES AND FUND BALANCE						
	FY 2016-17 Adopted Budget	% of Total	Estimated Increase/ Decrease	FY 2017-18 Preliminary Budget	% of Total	Increase / (Decrease)
Sales Tax	$18,030,000	42.97%	0.94%	$18,200,000	43.30%	$ 170,000
Property Tax	8,751,251	20.86%	1.63%	8,894,022	21.16%	142,771
State Aid	4,703,208	11.21%	0.00%	4,703,208	11.19%	-
Sale of Excess Hydro-Electricity	3,960,000	9.44%	-4.42%	3,785,000	9.00%	(175,000)
Bus Related Aid and Fares	883,550	2.11%	-3.57%	852,000	2.03%	(31,550)
Refuse	838,000	2.00%	-0.72%	832,000	1.98%	(6,000)
Cable Franchise Fees	369,000	0.88%	-7.05%	343,000	0.82%	(26,000)
Interfund Transfers (mostly Hotel Occupancy Tax)	326,000	0.78%	-37.00%	331,000	0.79%	5,000
Mortgage Tax	325,000	0.77%	0.00%	325,000	0.77%	-
All Other Revenues	2,565,162	6.11%	0.00%	2,565,162	6.10%	-
Total Revenues	**40,751,171**	**97.13%**	**0.19%**	**40,830,392**	**97.14%**	**79,221**
Appropriated Fund Balance	646,218	1.53%	0.00%	646,218	1.54%	-
Appropriated Capital Reserve	525,000	1.25%	0.00%	525,000	1.25%	-
All Other Appropriated Reserves	33,845	0.08%	0.00%	33,845	0.08%	-
Total Revenues and Appropriated Fund Balances	**$41,956,234**	**100.00%**	**0.19%**	**$42,035,455**	**100.00%**	**$ 79,221**

Expense Overview (no changes to original report)

GENERAL FUND						
	FY 2016-17 Adopted Budget	% of Total	Estimated Increase/ Decrease	FY 2017-18 Preliminary Budget	% of Total	Increase / (Decrease)
Personal Services	$16,547,789	39.44%	1.50%	$16,796,006	38.50%	$ 248,217
Retirement System	3,410,243	8.13%	1.50%	$ 3,461,397	7.93%	51,154
Health Insurance	6,970,975	16.61%	15.00%	$ 8,016,621	18.37%	1,045,646
Social Security	1,265,913	3.02%	1.50%	$ 1,284,902	2.94%	18,989
Workers Compensation	672,000	1.60%	2.00%	$ 685,440	1.57%	13,440
All Other Fringe Benefits	20,000	0.05%	2.00%	$ 20,400	0.05%	400
Equipment	488,015	1.16%	2.00%	$ 497,775	1.14%	9,760
Operating Expenses	7,479,056	17.83%	0.00%	$ 7,479,056	17.14%	-
Transfer to Library Fund	1,148,599	2.74%	25.00%	$ 1,435,749	3.29%	287,150
Transfer to Capital Fund	916,500	2.18%	0.00%	$ 916,500	2.10%	-
Transfer to Reserve Funds	75,000	0.18%	0.00%	$ 75,000	0.17%	-
Debt Service	2,962,144	7.06%	0.00%	$ 2,962,144	6.79%	-
	$41,956,234	100.00%	3.99%	$43,630,990	100.00%	$ 1,674,756