MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa3 rating to Watertown, NY's $6.3M GO Bonds

Global Credit Research - 27 Mar 2014

Affirms Aa3 on $20M of parity bonds

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

Moody's Rating

ISSUE		RATING
Public Improvement (Serial) Bonds, 2014 Series A		Aa3
Sale Amount	$1,195,000	
Expected Sale Date	04/15/14	
Rating Description	General Obligation	
Public Improvement (Serial) Bonds, 2014 Series B		Aa3
Sale Amount	$5,110,000	
Expected Sale Date	04/15/14	
Rating Description	General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, March 27, 2014 --Moody's Investors Service has assigned a rating of Aa3 to the City of Watertown, NY's $1.2 million Public Improvement Serial Bonds Series 2014A and $5.1 million Public Improvement Serial Bonds Series 2014B. At the same time, we have affirmed the Aa3 rating on approximately $20 million of previously issued parity debt. The bonds are secured by the city's general obligation pledge as limited by the Property Tax Cap Act (Chapter 97 (Part A) of the Laws of the State of New York, 2011).

Proceeds of the current issue will be used to fund a wastewater treatment disinfection system, plus water meter replacements and other smaller equipment and projects.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's solid financial reserves despite volatile revenue sources, and skilled management evidenced by long-term planning and projections. The rating also incorporates a relatively high debt burden, and a modestly sized tax base that is growing but exhibits socio-economic characteristics weaker than state and national medians.

STRENGTHS

Solid cash levels and financial reserves

Strong financial management with long-term planning and projections

CHALLENGES

Socio-economic characteristics that are weaker than state and national medians

Exposure to volatile revenue sources

DETAILED CREDIT DISCUSSION

STRONG MANAGEMENT PRACTICES COPE WITH VOLATILE REVENUES

We expect the city to continue managing well in the face of a budget that is composed of volatile revenues. The city's $40 million General Fund budget is funded about 46% by sales taxes and by 9% sales of excess power from a hydro-electric plant on the Black River (9%). The majority of these revenue sources are subject to unpredictability and volatility. The sales taxes, which are distributed by Jefferson County (GO rated Aa3), are reliant on the strength of the Canadian dollar. State aid was cut significantly in 2011 and 2012, although it has since been restored. Sales of hydroelectricity depend entirely on the flows of the Black River, which are difficult to predict.

The city copes with this volatility in two primary ways. First, it budgets conservatively, particularly for sales taxes. Second, management engages in long-term projections and planning, including various revenue scenarios and their potential influence on fund balance.

Despite ongoing revenue unpredictability, we expect these techniques will keep the city's finances strong. The city finished 2013 with a General Fund balance of 38% of revenues, well above the level of peers. Some portion of this fund balance consists of capital reserves, and will likely be spent down over the next five years. We plan to monitor the city's ability to maintain strong reserves going forward.

GOVERNMENT, MILITARY BOLSTER OTHERWISE WEAK TAX BASE

The city's $1.2 billion tax base relies heavily on government and military presence. Wealth levels in the city are weak, with the median family income as of 2010 equal to 80% of the US median. Offsetting this weakness is a great deal of stability, offered by nearby Fort Drum. Although not located in the city, Fort Drum employs 19,000 soldiers and 5,000 civilians, many of whom live in the city. 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. A large hospital, Samaritan Medical Center, employs 1,900 people, and some manufacturing rounds out the employment base. The city's unemployment rate of 7.7% as of January 2014 was a little higher than the state unemployment rate.

Measures of property wealth are very weak. Full value per capita is equal to $41,888, which is well below the median for New York cities. However, we believe this is largely a reflection of the preponderance of tax-exempt property (31% of the city). We believe the tax base is below-average for this rating category, but healthy.

MANAGEABLE DEBT BURDEN PARTLY SUPPORTED BY ENTERPRISE REVENUES

The city's $26 million debt portfolio is equal to 2.2% of full value, which is relatively high. This speaks mostly to the weak full value and the large amount of tax-exempt property in the city. Debt per capita ($933) and debt relative to revenues (0.6x) are modest.

Nearly half of the city's debt is payable through its water and sewer operations, which are financially healthy. Excluding this self-supporting debt, the net direct debt burden is 1.6% of full value.

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, two multi-employer, defined-benefit retirement plans sponsored by the State of New York (GO rated Aa2 positive). The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, has averaged 0.55 times revenues over the past three years. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determine the city's share of liability for the state-run plans in proportion to its contribution to the plans.

WHAT COULD CHANGE THE RATING UP:

Significant improvement of the underlying tax base

WHAT COULD CHANGE THE RATING DOWN:

Reduction of reserves from the current level

Significant increase in debt burden

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.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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