MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 rating to City of Watertown's (NY) $1.6M Public Improvement Serial Bonds of 2013

Global Credit Research - 10 Jun 2013

Affirms Aa3 rating on $24M of parity debt

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

Moody's Rating

ISSUE	RATING
Public Improvement (Serial) Bonds, 2013	Aa3
Sale Amount $1,645,000	
Expected Sale Date 06/18/13	
Rating Description General Obligation	

Moody's Outlook NOO

Opinion

NEW YORK, June 10, 2013 --Moody's Investors Service has assigned a Aa3 rating to the City of Watertown's (NY) $1.645 million Public Improvement Serial Bonds of 2013. Concurrently, Moody's has affirmed the rating on approximately $24 million of outstanding parity debt. The bonds are secured by the city's general obligation pledge. Proceeds of the current issue will be used to fund capital projects including work on streets, sidewalks, and the city's water system.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's solid financial reserves and skilled management including 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 weaker than state and national meidans

-- Exposure to volatile revenue sources

DETAILED CREDIT DISCUSSION

STABLE FINANCIAL POSITION WITH HEALTHY RESERVES

Moody's expects the city's financial position to weaken but remain strong going forward as cost pressures and a reluctance to raise property taxes are likely to eat into the city's very strong cash reserves.

The city drew $887,723 from its general fund balance in 2012, bringing the balance to $13.3 million, or a very healthy 34.1% of revenues. The draw is explained by a $2.2 million transfer to a separate capital reserve fund. The combined fund balance in the general fund ($13.3 million) and capital reserve fund ($1.7 million) was little-changed for the year.

The city may begin to use some of its reserves in fiscal 2013. The city has been reluctant to raise the property tax levy, which in 2013 is lower than it was in 2010. Additionally, the city faces numerous cost pressures, especially increasing pension contributions. A reliance on volatile revenue sources, including a county-distributed sales tax (44% of budgeted revenues in 2013) and surplus power sales from a city-owned hydro-electric plant (9% of budgeted revenues) leaves the city's general fund susceptible to unexpected draws. Surplus power sales in particular have been difficult to budget for, and frequently underperform the budget by several hundred thousand dollars.

We expect strong financial management to help offset many of these pressures. The city budgets conservatively for its sales tax distribution, which helps to overcome power sale shortfalls some years. When the city compiles its budget, it includes detailed multi-year forecasts that evaluate the effects on reserves of several taxing scenarios. Given the city's exposure to volatile revenues, erosion of general fund balance significantly below the current level could place downward pressure on the city's rating going forward.

GROWING TAX BASE WITH WEAK SOCIO-ECONOMIC CHARACTERISTICS

Moody's expects the city's $1.1 billion tax base to continue growing. The city's full value has grown 9% in the past two years, and income levels have been improving, which we believe is attributable to the expansion at nearby Fort Drum. Management reports the construction of housing developments mostly related to the base. In addition to the growth and improvement in the tax base, the city has several stabilizing influences. Fort Drum employs 19,000 soldiers and 5,000 civilians. The city is also the county seat of Jefferson County (Aa3) and has significant federal, state, and county government presence, as 23% of employment in the city is related to government. The Samaritan Medical Center employs 1,900 people. The city also has some manufacturing presence (10% of employment), with paper, train equipment, and motors among the industries represented.

Our expectation is for the tax base to continue growing but exhibiting socio-economic characteristics weaker than the state and national medians. The median family income as of the 2010 American Community Survey was 80% of the U.S. median. All property-based wealth measures are well below the median. Full value per capita is a weak $42,000, and the median home value as of 2010 was 64.4% of the U.S. median.

RELATIVELY HEAVY DEBT BURDEN

The city's debt burden is above the median, at 1.6% of full value. The heavy burden relative to full value mostly reflects weak full value, as debt per capita and debt service as a percentage of the budget are consistent with the state median.

We believe the debt burden may increase, as the city's five-year capital plan calls for more than $25 million of new borrowing. Partially mitigating the new debt is a rapid amortization of existing principal, with 96% scheduled to be repaid within 10 years.

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 (G.O. rated Aa2/Stable). The city's combined annual required contribution for the plans was $2.3 million in 2011, or 5.9% of revenues. The city's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $21.7 million, or approximately 0.56 times revenues. 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 MAKE THE RATING GO UP

-- Significant improvement of the underlying tax base

WHAT COULD MAKE THE RATING GO DOWN:

-- Significant reduction of reserves from the current level

-- Significant increase in debt burden, limiting financial flexibility

KEY STATISTICS:

2010 Population: 27,023

2013 Full value: $1.15 billion

2013 Full value per capita: $41,799

Direct debt burden: 1.6%

Overall debt burden (adjusted): 2.4%

Payout of principal (10 years): 96.4%

FY12 General Fund balance: $13.3 million (34.1% of General Fund revenues)

Post-sale G.O. Debt Outstanding: $24 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. 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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