

Rating Action: Moody's assigns a negative outlook on Watertown, NY

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New York, March 12, 2019 -- Moody's Investors Service has assigned a Aa3 rating to the city of Watertown, New York's \$6.7 million Public Improvement (Serial) Bonds, 2019. Moody's affirms the Aa3 ratings on the city as an issuer and on its outstanding general obligation bonds. A negative outlook has been assigned.

We consider the outstanding debt to be GOLT because of limitations under New York State law on property tax levy increases. The issuer rating is equivalent to the city's hypothetical general obligation unlimited tax rating (GOULT); there is no debt associated with the GOULT security.

RATINGS RATIONALE

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

The absence of distinction between the GOLT rating and the issuer rating reflects both the city council's ability to override the property tax cap and the faith and credit pledge supporting debt service, a security feature of all general obligation debt issued by the state of New York (Aa1 stable) local governments.

RATING OUTLOOK

The negative outlook reflects that reserves will continue to struggle keeping up with a growing budget resulting in a further decline in available fund balance as a percentage of revenues.

FACTORS THAT COULD LEAD TO AN UPGRADE

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

FACTORS THAT COULD LEAD TO A DOWNGRADE

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

LEGAL SECURITY

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

USE OF PROCEEDS

The bonds will support a variety of city infrastructure projects.

PROFILE

Watertown, NY is located 11 miles east of Lake Ontario and 22 miles south of the St. Lawrence River and Canadian border. The city has a population of about 26,000.

METHODOLOGY

The principal methodology used in these ratings was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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