

Summary:

Tonawanda, New York; General Obligation

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Credit Profile

US\$1.938 mil pub imp serial bnds ser 2011 dtd 06/17/2011 due 06/15/2011-2019

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating and stable outlook to the city of Tonawanda, N.Y.'s series 2011 public improvement bonds, and affirmed the 'A+' rating, with a stable outlook, on the city's existing general obligation (GO) debt.

The rating reflects our opinion of the city's:

- Access to and participation in the greater Buffalo area economy and employment base, and unemployment rate that is below state and national levels;
- Strong financial position with a history of operating surpluses and growing general fund reserves;
- Moderate overall net debt burden, combined with very rapid debt amortization, low carrying charges, and limited capital needs.

These strengths are mitigated, in part, by the lack of growth in the city's tax base, adequate income and property wealth levels, and deficit balances in the sewer enterprise funds.

The bonds are general obligations of the city, secured by its full faith and credit pledge. Proceeds will be used to finance various capital projects of the city.

The city of Tonawanda occupies roughly 3.5 square miles in the northwest portion of Erie County, midway between Buffalo and Niagara Falls (approximately five miles from either city). Population in 2010 was 15,130, down 6.2% since 2000. The city is primarily residential, although, historically, it had a number of industrial properties. While the employment base remains somewhat limited, residents have access to economic opportunities throughout the greater Buffalo area. Leading local employers include the City of Tonawanda Schools (348 employees), Tops Markets (retail, 300), Sugar Kake (manufacturing, 175), Mueller Services (insurance consultants, 150), and the city (135). County unemployment measured 7.9% in March 2011, compared with 8% for the state and 9.2% for the nation.

The city's property revaluation in 2009 boosted assessed valuation (AV) by 47%. Between fiscal 2009 and fiscal 2011, AV growth was flat. Between 2008 and 2011, full value of property grew only 2%. The tax base is diverse, with the top 10 taxpayers accounting for 12.4% of 2011's AV. The city's 2011 full market value was \$600.5 million (fully equalized), which represents an adequate \$39,687 per capita. The median household effective buying income is average at 80% and 83% of state and national levels, respectively.

Management projects that fiscal 2011 (Dec. 31) will end with balanced operations and the unreserved fund balance will be comparable to fiscal 2010's level. The city's financial position remains strong, with operating surpluses in two out of the three last fiscal years and growth in the unreserved fund balance. The unreserved fund balance

increased to \$2.9 million, or 16.2% of general fund expenditures, in fiscal 2010, from \$2.2 million, or 12.4%, in fiscal 2009. Of the fiscal 2010 unreserved fund balance, \$2.7 million is undesignated. The city maintains reserves within the general fund for tax stabilization, worker's compensation liabilities, and insurance.

In fiscal 2010, property taxes accounted for 52% of general fund revenues, while sales taxes and state aid accounted for 25% and 17%, respectively. The city has annually raised its property tax levy by approximately 2% for the last several years, including for fiscal 2011. Sales tax revenues are distributed by the county to the city, based on a population-derived formula, and has declined only 1.3% since fiscal 2008. As a small city in New York, the city receives funding under the state's Aid and Incentives for Municipalities (AIM) program; total aid to the city declined 4.3% between fiscal 2008 and 2010.

On the expenditure side, the city has cut costs by renegotiating certain portions of its health care coverage with employees, reducing the workforce by attrition, especially at the supervisory level, and consolidating the management and functions of some departments.

We consider Tonawanda's management practices to be "good" under Standard & Poor's Financial Management Assessment. This indicates that practices exist in most areas, although governance officials might not formalize or regularly monitor all of them. Management develops the operating budget based on at least two years of historical data, and reports budget-to-actual performance and investment performance monthly to the city council. Multiyear financial plans are developed as part of the city's eligibility for AIM funding. The city maintains a five-year capital improvement plan that identifies projects and sources of funding and is annually reviewed. Management has an informal policy of maintaining 10%-15% of the following year's general fund operating budget in reserves. It recently set a target to limit debt carrying charges to 10% of the operating budget.

The overall debt burden, net of water debt paid from customer surcharges, is low at \$1,649 per capita and moderate at 4.2% of full value. Debt service carrying charges are relatively low at 6.8% of fiscal 2010 general fund expenditures. Debt amortization is rapid, with 95% of principal retired over 10 years and 100% by 2024. The five-year (2011-2015) capital improvement plan totals \$21.8 million, with approximately 50% funded by city GO debt.

In fiscal 2010, the city contributed \$1.04 million, or 5.8% of operating expenditures, to state retirement plans. As of Jan. 1, 2008, the city's unfunded other postemployment benefits liability totaled \$37.3 million, and the annual required contribution was \$1.8 million, or 10.2% of fiscal 2010 general fund expenditures. The city funds these obligations on a pay-as-you-go basis, paying \$1.4 million, or 8% of operating expenditures, in fiscal 2010.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will continue to budget to maintain balanced operations and strong general fund reserves and keep debt levels moderate. Failure to do so could put negative pressure on the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of May 26, 2011)		
Tonawanda GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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