# Buffalo, New York

## General Obligation Bonds
**New Issue Report**

### Ratings

**New Issue**

| | |
|---|---|
| General Improvement Serial Bonds, 2015 | A+ |

**Outstanding Debt**

| | |
|---|---|
| Limited Tax General Obligation Bonds | A+ |
| Unlimited General Obligation Bonds | A+ |

### Rating Outlook
Stable

### Related Research
Fitch Rates Buffalo, NY's LTGOs 'A+'; Outlook Stable (April 2015)

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## New Issue Details

**Sale Information:** $30,078,985 General Improvement Serial Bonds, 2015, scheduled for competitive sale the week of April 13.

**Security:** The full faith and credit of Buffalo, subject to the 2011 state statute limiting property tax increases to the lesser of 2% or an inflation factor (the tax cap law). This limit can be overridden by a 60% majority vote of the city common council.

**Purpose:** To refund outstanding bond anticipation notes and finance various capital projects.

**Final Maturity:** April 1, 2026.

## Key Rating Drivers

**Sound Fiscal Discipline:** The city has restored a sound fiscal foundation after dropping to low reserve and liquidity levels early last decade. The Buffalo Fiscal Stability Authority (BFSA), a state-imposed oversight entity in place since 2003, was a key factor in this improvement. Although the BFSA is now in an advisory period, the city has maintained the fiscal discipline established by the authority.

**Further Declines Projected:** Additional declines are projected from the city's current elevated fund balance levels. Fitch Ratings believes management will take the necessary steps to prevent declines that will reduce fund balance to levels that would impair financial flexibility.

**Extensive Economic Development Activity:** The economic base is benefitting from extensive investment by the University at Buffalo, the Buffalo Niagara Medical Campus, the state of New York, and various private businesses such as SolarCity and IBM.

**Below-Average Socioeconomic Indicators:** Socioeconomic indicators are weak with below-average income levels, high individual poverty rates, and high unemployment rates.

**Elevated Unfunded OPEB Liability:** An elevated burden of unfunded other post-employment benefit (OPEB) liabilities is notable. Overall carrying costs are above average.

**Outstanding Debt Rating Parity:** The bonds are rated on parity with outstanding debt as the city may exceed the property tax cap in any one year with 60% approval of the common council.

## Rating Sensitivities

**Maintenance of Sound Reserves:** The rating is sensitive to the city's ability to consistently balance operations and maintain reserves consistent with those projected in the current four-year plan.

## Rating History

| Rating | Action | Outlook/ Watch | Date |
|---|---|---|---|
| A+ | Affirmed | Stable | 4/1/15 |
| A+ | Affirmed | Stable | 3/4/14 |
| A+ | Affirmed | Stable | 4/1/13 |
| A+ | Affirmed | Stable | 8/27/12 |
| A+ | Affirmed | Stable | 4/4/12 |
| A+ | Affirmed | Stable | 7/20/11 |
| A+ | Affirmed | Stable | 6/21/11 |
| A+ | Affirmed | Stable | 1/20/11 |
| A+ | Affirmed | Stable | 6/25/10 |
| A+ | Assigned | Stable | 5/11/10 |

### Related Criteria

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Tax-Supported Rating Criteria (August 2012)

## Credit Profile

Buffalo is located in upstate New York near the Canadian border and is the second largest city in the state. The city benefits from cross-border tourism and retains a fairly large manufacturing presence. Population has experienced chronic declines over the past few decades, including an 11% loss in the past decade and now stands a little below 260,000 residents.

### Economy Showing Signs of Improvement

The city has a diverse economic base that benefits from its proximity to Canada with consistent tax base growth for the past five years, although market value per capita remains low at $27,000. Notable economic anchors include Buffalo-Niagara Medical Campus (BNMC), Erie County Medical Center Corporation, Kaleida Health, and the University at Buffalo.

After years of declines, the city is showing notable signs of growth. In particular, BNMC, which employs roughly 12,000 people, has over $500 million in new projects planned and is expected to add 4,000 new employees in the near future. SolarCity, a solar panel manufacturer, is investing $5 billion combined with $750 million from the state to build the largest solar manufacturing facility in the western hemisphere and create 3,000 jobs. Also, IBM announced it will be adding 500 jobs in Buffalo.

### Below-Average Socioeconomic Profile

Socioeconomic indicators are below average with per capita income levels at 63% and 72% of the state and national levels, respectively. Poverty rates are more than double the statewide average and the city's unemployment rate has been persistently above the state and national averages over the past decade, although it is down from past highs.

The most recent monthly unemployment figure (December 2014) was 6.7%, well below the 8.1% recorded a year prior as the reduction in the labor force outpaced the decline in jobs. The 6.7% for December 2014 remains well above the state rate of 5.7% and the U.S. rate of 5.4% for the same period.

### Financial Operations Improved During BFSA Control Period

The city experienced financial pressures early in the past decade, resulting in chronic fiscal imbalance and ultimately a strain on liquidity. Consequently, in 2003, state lawmakers created the BFSA to facilitate financial reforms within the city. From inception, the authority operated as a hard control board and as such its powers included the ability to invalidate union contracts, impose wage and hiring freezes, and approve budgets and debt issuances.

The authority moved to an advisory role in 2012 as the city had achieved predetermined benchmarks. The hard control period can be reimposed if certain fiscal conditions are not maintained. Fitch looks favorably on management's efforts to codify many of the policies required by the BFSA so that best practices remain in place regardless of the nature of the oversight board.

The city achieved operating surpluses every year from fiscal 2003 through fiscal 2010. During this period, the general fund unreserved fund balance improved from $9.7 million, or 2.6% of expenditures and transfers out to over $110 million, or 24.5%.

## Trend of Deficits Expected to Continue

Following this period of strong budget performance, the city has operated at a deficit in three of the past four fiscal years, spending down a portion of its unreserved fund balance. A large surplus in fiscal 2013, derived primarily from receipt of one-time and catch-up revenues, offset these reductions, leaving the city with still ample flexibility. However, further deficit spending is projected for fiscal 2015 and fiscal 2016.

The enacted budget for the current year, fiscal 2015, assumed a flat property tax levy and state aid, increased pension costs, and use of $27.5 million in fund balance. Management expects to meet budget as unexpected snow removal costs will be offset by savings from vacant positions. The projected draw would bring unrestricted fund balance down to about $83 million, or 17% of expenditures.

The city's four-year financial plan features annual fund balance appropriations. The fiscal 2016 budget included a $25 million deficit, bringing unrestricted fund balance down to about 12% of expenditures. Property taxes will again be flat, although an increase is being considered for fiscal 2017. Pension costs are expected to begin declining and the city expects to benefit from beginning to self-fund medical insurance in fiscal 2016. Sales tax growth assumptions are conservative and pay increases for unsettled labor contracts are included. The four-year plan includes smaller declines of $10 million for fiscal 2017 and $5 million for fiscal 2018. Failure to achieve projected results for fiscal years 2016–2018 would reduce fund balance levels below those appropriate for the current rating level and would likely cause downward rating pressure.

## Moderate Debt and Pension Burdens with High OPEB Liability

The city's overall debt burden is low on a per capita basis at $1,399 but elevated at 5.2% of the city's weak market value. Total debt outstanding has declined consistently since fiscal 2002. Future debt needs are modest with annual issuance below the amount of debt amortized and principal amortization is very rapid, with 96% retired in 10 years.

### Debt Statistics

($000)

| | |
|---|---|
| This Issue | 30079 |
| Outstanding Direct Debt – Net of Refunding | 255,258 |
| **Total Net Direct Debt** | **285,337** |
| Overlapping Debt | 77,004 |
| **Total Overall Debt** | **362,341** |
| | |
| **Debt Ratios** | |
| Net Direct Debt Per Capita ($)[a] | 1,102 |
| As % of Market Value[b] | 4.1 |
| Overall Debt Per Capita ($)[a] | 1,399 |
| As % of Market Value[b] | 5.2 |

[a]Population: 258,959 (2013). [b]Market value: $6,755,333,000 (2014).
Note: Numbers may not add due to rounding.

Employees participate in well-funded state-sponsored defined benefit pension plans and the city has made all required pension payments to the state. The plan for police and fire is 85% funded as of March 31, 2014 assuming a 7% rate of return while the plan for all other employees is 84% funded. Payments have been increasing but state-provided projections show payments declining beginning in fiscal 2016.

As of July 2014, the city's other post-employment benefits (OPEB) liability totaled $1.6 billion, or a very high 24% of market value. The city currently funds its liability on a pay-as-you-go basis. The current labor contract for firefighters included a change in healthcare plans and a new white-collar contract eliminated post-employment health care for new hires, which should lower OPEB costs. Total carrying costs for debt, pension, and OPEB claimed an elevated 24% of governmental fund spending, largely due to OPEB costs.

## General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Property Tax Revenue | 136,329 | 138,369 | 138,305 | 135,239 | 133,819 |
| Other Tax Revenue | 12,407 | 14,465 | 12,951 | 12,253 | 15,542 |
| Total Tax Revenue | 148,736 | 152,834 | 151,256 | 147,492 | 149,361 |
| License and Permits | 3,598 | 3,591 | 3,338 | 3,408 | 3,258 |
| Fines and Forfeits | 6,593 | 7,013 | 6,808 | 7,289 | 6,896 |
| Charges for Services | 10,359 | 11,328 | 11,040 | 13,719 | 12,543 |
| Intergovernmental Revenue | 196,513 | 184,855 | 256,772 | 217,650 | 198,568 |
| Other Revenue | 80,138 | 79,431 | 9,203 | 115,400 | 81,314 |
| **General Fund Revenue** | **445,937** | **439,052** | **438,416** | **504,958** | **451,940** |
| | | | | | |
| General Government | 56,613 | 57,286 | 55,744 | 53,395 | 54,412 |
| Public Safety | 145,564 | 138,904 | 138,346 | 136,468 | 149,302 |
| Public Works | — | — | — | 9,824 | 11,649 |
| Health and Social Services | 2,974 | 2,816 | 1,834 | 2,536 | 1,921 |
| Culture and Recreation | 3,177 | 7,182 | 6,697 | 6,864 | 6,656 |
| Educational | 70,323 | 70,323 | 70,323 | 70,323 | 70,323 |
| Debt Service | 898 | 891 | 867 | 831 | 812 |
| Other s | 137,713 | 148,560 | 155,068 | 147,618 | 156,926 |
| **General Fund Expenditures** | **417,262** | **425,962** | **428,879** | **427,859** | **452,001** |
| | | | | | |
| **General Fund Surplus** | **28,675** | **13,090** | **9,537** | **77,099** | **(61)** |
| Transfers In | 8,657 | 9,545 | 12,076 | 11,024 | 15,819 |
| Transfers Out | 33,190 | 35,424 | 37,932 | 35,957 | 35,182 |
| Net Transfers and Other | (24,533) | (25,879) | (25,856) | (24,933) | (19,363) |
| **Net Surplus/(Deficit)** | **4,142** | **(12,789)** | **(16,319)** | **52,166** | **(19,424)** |
| | | | | | |
| Total Fund Balance | 142,740 | 129,951 | 113,631 | 165,797 | 146,373 |
| As % of Expenditures, Transfers Out, and Other Uses | 31.7 | 28.2 | 24.3 | 35.7 | 30.0 |
| Unreserved Fund Balance1 | 110,481 | — | — | — | — |
| As % of Expenditures, Transfers Out, and Other Uses | 24.5 | — | — | — | — |
| Unrestricted Fund Balance2 | — | 92,707 | 77,714 | 130,050 | 110,846 |
| As % of Expenditures, Transfers Out, and Other Uses | — | 20.1 | 16.6 | 28.0 | 22.8 |

[a]Pre GASB54. [b]Reflects GASB 54 classifications: sum of committed, assigned, and unassigned. Note: Numbers may not add due to rounding.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.