

CREDIT OPINION

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New Issue

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Buffalo, NY

New Issue: Moody's assigns A1 to Buffalo NY's \$52.7M GO bonds, outlook stable

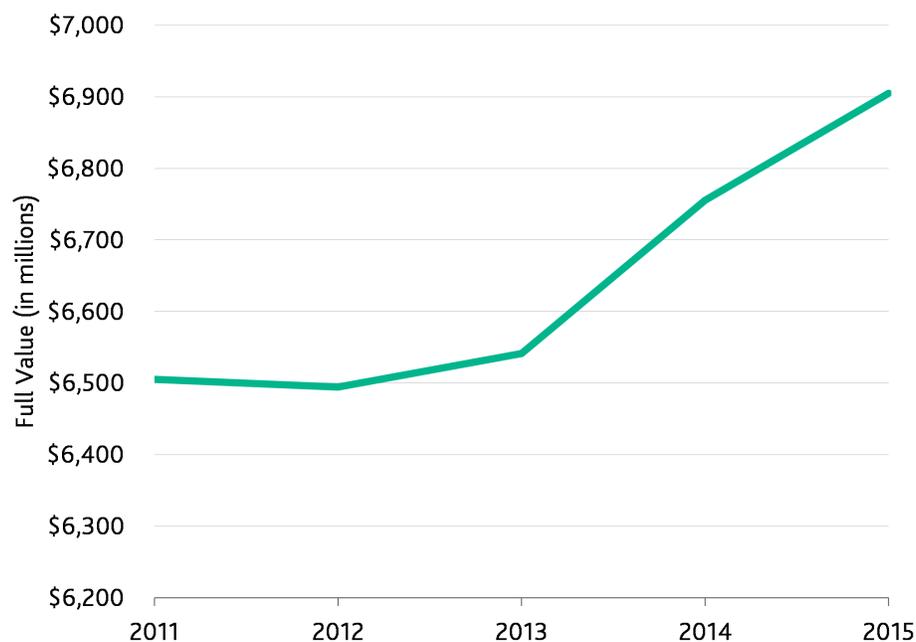
Summary Rating Rationale

Moody's Investors Service has assigned an A1 rating on the city of Buffalo's \$27.8 million General Improvement Serial Bonds 2016A and \$24.9 million General Obligation Refunding Bonds 2016B. Concurrently, we have affirmed the A1 rating on the city's \$228 million in outstanding GO debt.

The A1 rating reflects the city's overall satisfactory reserves and liquidity despite current projected declines and out year budget gaps in the multi-year plan. The rating also factors in challenges posed by the city's below average demographic profile and a high debt burden that is expected to moderate. Additionally, the rating incorporates increased revenue raising flexibility following recent growth in values.

Exhibit 1

Trend of Moderate Growth Continues



Source: City of Buffalo

Credit Strengths

- » Improving local economy
- » Solid reserve position and liquidity
- » Direct pay of first-in property tax money to the trustee for payment of debt service
- » State oversight board provides third-party supervision of city's finances

Credit Challenges

- » Ongoing use of reserves to balance budgets
- » State aid cuts could put significant pressure on city's finances
- » Uncertainty around outstanding schools union contracts

Rating Outlook

The stable outlook reflects our belief that the city's liquidity and reserve position remains strong, as evidenced by elimination of the need for seasonal cash flow borrowing. The outlook factors our expectation of continued modest growth in the local economy and an expected maintenance of the city's currently strong financial position despite continued use of reserves to balance the budget.

Factors that Could Lead to an Upgrade

- » Demonstrated ability to maintain satisfactory financial flexibility and liquidity
- » Structurally balanced budgets which reduce the annual fund balance appropriation and declining reserve position

Factors that Could Lead to a Downgrade

- » Significant use of reserves to support operations
- » Reversal of trend of increasing taxing capacity

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key Indicators

Exhibit 2

Buffalo (City of) NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 6,505,078	\$ 6,494,114	\$ 6,541,472	\$ 6,755,333	\$ 6,905,105
Full Value Per Capita	\$ 24,919	\$ 25,037	\$ 25,261	\$ 26,112	\$ 26,691
Median Family Income (% of US Median)	59.1%	57.6%	57.6%	57.6%	57.6%
Finances					
Operating Revenue (\$000)	\$ 1,188,583	\$ 1,110,200	\$ 1,208,482	\$ 1,162,409	\$ 1,203,443
Fund Balance as a % of Revenues	38.2%	32.3%	33.6%	40.8%	28.9%
Cash Balance as a % of Revenues	46.5%	41.9%	42.0%	42.1%	33.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 362,212	\$ 372,672	\$ 351,705	\$ 330,323	\$ 318,130
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	0.3x
Net Direct Debt / Full Value (%)	5.6%	5.7%	5.4%	4.9%	4.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.6x	0.9x	1.2x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	9.8%	17.4%	20.3%	23.0%

Source: Moody's Investors Service

Detailed Rating Considerations:

Economy and Tax Base: Growth in Local Economy Continues; Moderating Trend of Population Decline

Buffalo is continuing to experience moderate growth despite below average income indicators and high poverty. Although population declines continue, the rate of decline has begun to moderate significantly from previous decades. The city's 2010 population was 261,310, down 10.7% from 2000, a continuation of the trend that began in 1950 when the city's population peaked at 580,132. Positively, population decline from 2010 to 2014 was just under 1% at 258,703. Moody's Analytics reports that the economy continues to expand following its strongest year this century (2015), however growth will moderate in 2016. Heightened uncertainty surrounding SolarCity and banking coupled with poor demographics may create downside risk to the economy. New York State Governor Andrew Cuomo has made economic development of the Buffalo region one of his top priorities. The goal of his "Buffalo Billion" plan was to infuse \$1 billion into the Buffalo economy over 10 years. As a result of this initiative, there has been considerable development in the Buffalo MSA. The \$7 billion full value in the city has grown at an average rate of 1.6% since 2011 including 3.3% growth in 2014 and 2.2% growth in 2015. Assessed values have grown modestly as well averaging 0.7% growth annually. Officials expect continued growth in the near-term given ongoing construction and an expected city-wide revaluation.

Recently, SolarCity announced that it planned to invest up to \$5 billion in the Riverbend Project, up from the \$750 million under previous ownership, to construct the largest solar production facility in the Western Hemisphere. When complete, the Riverbend Project is expected to support up to 3,000 new high-paying technology jobs. As part of the Buffalo Billion, International Business Machines Corporation (IBM, Aa3 negative), announced in 2014 its commitment to bring 500 new information technology jobs to the city. In addition, the city has significant economic development activity within the city and along the waterfront and inner harbor. These include the Buffalo Sabres' HARBORcenter Development, LLC, a new hockey-themed complex along the inner harbor, the ongoing developments at the Buffalo Niagara Medical Campus, and the University of Buffalo. In total these projects represent nearly a \$1 billion in investments within the city and will result in thousands of new jobs.

Despite recent building activity, the employment picture continues to be a concern. While the city's unemployment rate has been in decline over the past three years, this has largely been due to a declining workforce and not an improvement in the labor participation rate. However, as of December 2015 the city's work force grew slightly and we expect this trend to continue.

Financial Operations and Reserves: Strong Reserve Position Despite Ongoing Use

Buffalo's financial operations should remain strong despite both city and CSD/BOE use of reserves to balance the budget, given strong city management and oversight of operations by Buffalo Fiscal Stability Authority (BFSA). Over the past five years, total Operating

Fund (City General Fund, BOE General Fund, City Debt Service Fund and BOE Debt Service Fund) has averaged approximately 30% of revenues. Fiscal 2015 finished at the lowest level since 2009 with total operating fund balance declining by \$42 million. The City General Fund finished with an increase in total fund balance of \$4.8 million despite a planned use of \$27 million. The BOE's General Fund declined by \$2.7 million, after an original appropriation of \$10.2 million. The better-than-budgeted results are attributable to conservative budgeting for expenses.

Fiscal 2016 (June 30 year end) is currently tracking on budget for the city and the CSD. However, the City budgeted the use of \$15 million in reserves to the year and expects to use \$10-\$11 million of the reserves. The CSD budgeted \$8.4 million and will most likely use the appropriation given increases in ELS and special education expenses and the addition of a new culinary school program.

The fiscal 2017 budget process is in its early stages, but officials report all city contracts have been settled and the budget will account for increased in salaries. The BOE currently has 8 of 10 employee union contracts outstanding including the teachers (3,487 employees) which has been expired since 2004. At this point both the city and the CSD plan to continue to use reserves to balance the budget, however at a much lower level. Failure to adhere to the city's informal policies, and structurally balance operations going forward, could result in negative rating pressure in the future.

LIQUIDITY

Liquidity for the combined Operating Fund is strong, at over 30% of revenues. The city has not required the issuance of short-term cash flow notes since 2007.

Debt and Pensions: Debt Remains Elevated but Manageable

Debt will remain manageable despite its elevated position given additional tax base growth and a policy to not issue more debt than what is being retired. Direct debt is a high 4.5% of full value, well above the state wide median of 1.8%. This figure includes debt that is issued for schools, however. Most cities in New York do not combine school debt with city debt. Management anticipates issuing approximately \$20-25 million in new money on an annual basis.

DEBT STRUCTURE

All of the debt is fixed rate.

DEBT-RELATED DERIVATIVES

The city is not exposed to derivatives.

PENSIONS AND OPEB

Buffalo continues to make pension payments in full and on time and has no plans to amortize payments in the future. The City contributes to the New York State Police and Fire Retirement System (PFRS), Teachers Retirement System (TRS) and Employees' Retirement System (ERS), all of which are multi-employer cost-sharing defined benefit plans. The city's combined adjusted net pension liability for the plans, under Moody's methodology for adjusting reported pension data, was \$1.1 billion, or an average 1.3 times total operating revenues. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

Similar to all other local governments in New York, the city and BOE pays OPEB on a pay-as-you-go basis. The city's OPEB liability as of June 30, 2015 totals \$1.4 billion, the CSD's liability totaled \$1.8 billion. The ARC for the city is \$95.1 million and \$163.5 million for the CSD. There is no current requirement to fund the future OPEB obligation; however the Buffalo CSD assigned \$38.4 million of fund balance in fiscal 2015 towards its OPEB obligation.

Management and Governance

Management for the city is strong, with informal reserve policies, formal "Rainy Day Funds", and a debt policy to not issue more debt than what is being retired annually. Management is also required to submit its budgets and four year financial plans to BFSAs for review and do quarterly financial reporting. In addition, pursuant to the state enabling legislation, the city is required to set up a debt service reserve fund, to be funded with first-in property tax revenues, for the payment of debt service.

New York cities have an institutional framework score of "A," or moderate. Revenues are highly predictable, as property taxes are usually the largest revenue source, followed by, sales and mortgage taxes, as well as building permit revenue. Cities have a moderate

revenue raising ability, as they can increase property tax revenues above the tax cap with a 60% vote of the local legislative body. Expenditures vary across the state but primarily consist of personnel costs, which are moderately predictable. Expenditure reduction ability is low given the presence of strong collective bargaining groups and the Triborough Amendment which enhances collective bargaining powers.

Legal Security

The 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 2016A bonds will finance various city wide capital improvements with the largest portion of proceeds going towards infrastructure improvements (\$6 million) and city court rehabilitation (\$3 million). The 2016B bonds will refinance various series of city and CSD outstanding bonds for an expected net present value savings in excess of 3% without extending debt maturity.

Obligor Profile

Buffalo is the second largest city by population in the state, after New York City. Located in western New York, on the border to Canada, the city is the economic hub of the region.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 3

Buffalo (City of) NY

Issue	Rating
General Improvement Serial Bonds - 2016A	A1
Rating Type	Underlying LT
Sale Amount	\$27,807,968
Expected Sale Date	04/11/2016
Rating Description	General Obligation Limited Tax
General Obligation Refunding Bonds - 2016B	A1
Rating Type	Underlying LT
Sale Amount	\$24,895,000
Expected Sale Date	04/11/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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