

## CREDIT OPINION

1 December 2017

Update

Rate this Research >>

### Contacts

Isaac Rauch +1.212.553.4346  
Associate Analyst  
isaac.rauch@moodys.com

Nicholas Lehman +1.617.535.7694  
AVP-Analyst  
nicholas.lehman@moodys.com

### CLIENT SERVICES

Americas 1-212-553-1653  
Asia Pacific 852-3551-3077  
Japan 81-3-5408-4100  
EMEA 44-20-7772-5454

## Lewiston (Town of), NY

Update - Moody's affirms Lewiston NY's A1 GO; Negative outlook removed

### Summary Rating Rationale

Moody's Investors Service has affirmed the A1 rating on the Town of Lewiston, NY's issuer rating and general obligation bonds. The town has \$10.9 million in general obligation debt outstanding. The negative outlook has been removed.

The A1 rating reflects the town's stabilizing financial position and additions to fund balance. The rating further incorporates a diverse and developing tax base, and manageable debt burden and pension liability.

### Credit Strengths

- » Developing tax base supported by institutional presence and above average income levels
- » Demonstrated willingness to raise the property tax levy
- » Healthy fund balances

### Credit Challenges

- » Reliance on economically sensitive revenues
- » Exposure to a single company that is a significant source of tax revenue, non-tax revenue, and employment

### Rating Outlook

The negative outlook has been removed because we expect the town's credit profile to remain in-line with the current rating category based on its diversified revenue structure, stabilizing financial position, and growing tax base.

### Factors that Could Lead to an Upgrade

- » Additional revenue diversification through continued increases to the levy
- » A trend of operating surpluses resulting in a material increase in reserves
- » Continued tax base growth

### Factors that Could Lead to a Downgrade

- » Declines in sales tax and tipping fee revenues

- » Instability among the town's major employers or institutional presences
- » A trend of operating deficits resulting in a material decrease in reserves

## Key Indicators

Exhibit 2

Lewiston (Town of) NY	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$993,330	\$986,616	\$1,015,380	\$1,039,267	\$1,146,517
Population	16,239	16,218	16,188	16,072	16,015
Full Value Per Capita	\$61,169	\$60,835	\$62,724	\$64,663	\$71,590
Median Family Income (% of USMedian)	114.0%	122.4%	127.2%	127.8%	127.8%
<b>Finances</b>					
Operating Revenue (\$000)	\$8,059	\$7,788	\$8,179	\$8,063	\$8,138
Fund Balance (\$000)	\$2,706	\$2,155	\$1,705	\$1,913	\$2,284
Cash Balance (\$000)	\$1,289	\$1,309	\$1,277	\$1,205	\$1,673
Fund Balance as a % of Revenues	33.6%	27.7%	20.8%	23.7%	28.1%
Cash Balance as a % of Revenues	16.0%	16.8%	15.6%	14.9%	20.6%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$13,419	\$14,574	\$13,790	\$13,322	\$12,329
3-Year Average of Moody's ANPL (\$000)	\$6,310	\$11,321	\$12,963	\$15,150	\$14,676
Net Direct Debt / Operating Revenues (x)	1.7x	1.9x	1.7x	1.7x	1.5x
Net Direct Debt / Full Value (%)	1.4%	1.5%	1.4%	1.3%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.8x	1.5x	1.6x	1.9x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.6%	1.1%	1.3%	1.5%	1.3%

Source: Moody's Investor's Service; District's Annual Financial Statements

## Detailed Rating Considerations

### Economy and Tax Base: Developing Tax Base with Strong Growth and Solid Institutional Presence

The town's moderate \$1.2 billion tax base has grown in recent years, with a five-year average annual growth rate of 3.7% of full value. Management reports significant development activity in progress: approximately 155 new housing units over three separate developments, and another 103 units currently before the town's planning officials. Building permits rose 11% between 2015 and 2016.

Wealth is above average for the region, with median family income of 127.8% of the U.S. median. Poverty is minimal at 4.86%, the town's population of 16,072 is stable, and the tax base is supported by 168 seasonal homes.

Lewiston is a bedroom community for the cities of Buffalo and Niagara Falls, and residents benefit from employment opportunities in those cities. The town also benefits from a few large institutional employers of its own, including Niagara University, Mount St. Mary's Hospital, and two public school districts. Modern Landfill, which made up 1.2% of the town's assessed value in 2017, runs a large waste management facility and employs approximately 500 people. Management reports that major employers within the town are stable.

### Financial Operations and Reserves: Balanced Operations, Solid Fund Balances, and Revenue Diversification

Lewiston's financial position has meaningfully improved. In 2015 and 2016, the town ran two surpluses that averaged 3.6% of operating revenues and replenished fund balance that was depleted in earlier years. The town expects balanced operations in 2017, and budgeted no fund balance appropriation in 2018.

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

Operating revenue growth stalled between 2012 and 2016, and management achieved its return to structural balance through budgeting controls, attrition, and consolidation of government functions, ultimately cutting operating costs 10% between 2014 and 2016. Revenue growth stalled in part because of stagnant sales tax and tipping revenue. Management attributes stagnant sales tax revenue to county-wide economic trends, as well as the impact of the strong US dollar on cross-border retail shopping. Tipping fees declined in 2016 because Modern Landfill, which remits tipping fees to town based on tonnage, lost one of its largest contracts.

Going forward, the town has addressed revenue challenges by substantially raising the property tax levy (from \$2.5 million in 2016 to \$3.8 million in 2017) and, for the first time in 10 years, earmarking part of the levy for its operating funds. Prior to 2017, property tax revenues flowed exclusively into the town's water, sewer, and other non-major funds. We expect this revenue diversification to give the town greater operating flexibility in the future.

The town expects 2017 sales tax receipts to roughly equal those of 2016. Modern Landfill has signed new contracts, and town management has budgeted for growth in tipping fees in 2017 and 2018. Tipping fees represent 8.9% of the adopted 2018 operating budget, and are a potential source of budget stress going forward.

The town also receives revenue from the New York Power Authority. As a "host community" for NYPA's 2,675 MW hydropower facility, NYPA pays the town a \$850,000 fee every year—revenue that is available for capital needs, public safety, energy costs, or debt service. In addition, NYPA gives the town 6.5 MW of energy to be sold on the open market, which has added between \$400,000 and \$800,000 annually to the town's capital funds from 2015 to 2017. The contract with NYPA began in 2007 and runs for 50 years.

#### **LIQUIDITY**

The town's fiscal 2016 cash and investments represented \$1.7 million, or a satisfactory 20.6% of operating revenues. The town does not expect to appropriate any of this balance for operations in 2017.

#### **Debt and Pensions: Manageable Fixed Costs with Debt Service Paid Out of Water and Sewer Funds**

The direct debt burden of 1% of full value is expected to increase over the near term, as the town expects to issue \$10.2 million in new debt for a water infrastructure project, and take out its outstanding BANs with long-term financing of less than \$1 million. While the town has no revenue-backed debt, it pays the majority of its debt service out of the non-operating water and sewer funds, and debt service is not a significant pressure on the operating budget.

#### **DEBT STRUCTURE**

The entire debt portfolio is fixed rate with 64.1% of principal retired in ten years. Fiscal 2016 debt service equaled \$81,357 or 1% of operating expenditures. With the water and sewer funds included in the calculation, fiscal 2016 debt service equaled \$1.2 million, or 9.7% of expenditures in the operating, water, and sewer funds.

#### **DEBT-RELATED DERIVATIVES**

Lewiston is not subject to any derivatives or interest rate swap agreements.

#### **PENSIONS AND OPEB**

The town participates in the New York State and Local Employees Retirement System and the New York State and Local Police and Fire Retirement System (PFRS), two multi-employer defined benefit retirement plans sponsored by the State of New York (Aa1 stable). The town's combined adjusted net pension liability for 2016, under Moody's methodology for adjusting reported pension data, was \$14.7 million, or a slightly above average 1.8 times total operating revenues. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. We determined the town's share of liability for the state-run plans in proportion to its contributions to the plans.

The town also provides employees with Other Postemployment Benefits (OPEB) and as of fiscal 2016, had an unfunded actuarial liability of \$12.9 million, or 1.6 times operating revenues. The town makes annual pay-as-you-go OPEB contributions which totaled \$320,785 in fiscal 2016.

The town's total fixed costs for 2016 including pension, OPEB and debt service totaled \$1.1 million, or a manageable 13.5% of operating revenues. Incorporating debt and revenues from the water and sewer funds, fixed costs totaled a manageable 18.1% of combined operating, water, and sewer revenues.

### Management and Governance

Consecutive surpluses in fiscal 2015 and 2016 have been driven by conservative budgeting of expenditures, reflecting prudent budgetary management. The town reports that it is drafting a formal fund balance policy. The town is currently in negotiations with the Teamsters Local 264 (Police Department), which has a contract in place through 2017.

New York cities, towns and villages have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Cities operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI. However, this cap can be overridden at the local level, without voter approval. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

### Legal Security

Outstanding bonds are secured by the town's general obligation tax pledge.

### Use of Proceeds

Not applicable.

### Obligor Profile

Lewiston is located in Niagara County (Aa3 no outlook), 25 miles north of Buffalo (A1 positive) and 10 miles north of the city of Niagara Falls (Baa3 negative). The population is approximately 16,072 and budgeted operating appropriations totaled approximately \$8.1 million in fiscal 2016.

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1101157

## CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454