

CREDIT OPINION

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Update

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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
Economy/Tax Base					
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%
Finances					
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%
Debt/Pensions					
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.

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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 for a copy of this methodology.

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