

## CREDIT OPINION

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Update

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## Port Jervis (City of), NY

Rating Update - Moody's Downgrades Port Jervis, NY GOs to Baa1; Assigns Stable Outlook

### Summary Rating Rationale

Moody's Investors Service has downgraded the City of Port Jervis, New York's general obligation bonds to Baa1 from A3. Concurrently, we have assigned a stable outlook.

The downgrade reflects three years of deficit operations resulting in narrowed fund balance and liquidity. The rating also incorporates the city's limited but stabilizing tax base, below average wealth levels, and a growing debt burden.

### Credit Strengths

- » Limited but stabilizing tax base
- » Sources of liquidity outside the General Fund

### Credit Challenges

- » Multi-year deficits have narrowed reserve and liquidity position
- » Elevated debt burden
- » Below average wealth indicators

### Rating Outlook

The stable outlook reflects our expectation that management will continue to build reserves and liquidity in the medium term. The outlook further reflects recent tax increases well in excess of state cap on levy increases which have contributed to improved fiscal balance.

### Factors that Could Lead to an Upgrade

- » Trend of positive operations and the replenishment of fund balance and liquidity
- » Improved income and wealth metrics
- » Tax base growth

### Factors that Could Lead to a Downgrade

- » Continued deficit operations resulting in further declines in reserves
- » Tax base contraction

## Key Indicators

Exhibit 1

Port Jervis (City of) NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 471,742	\$ 434,990	\$ 401,117	\$ 369,309	\$ 371,140
Full Value Per Capita	\$ 53,106	\$ 49,341	\$ 45,717	\$ 42,274	\$ 43,111
Median Family Income (% of US Median)	73.2%	77.4%	75.3%	80.7%	80.7%
Finances					
Operating Revenue (\$000)	\$ 10,575	\$ 11,281	\$ 11,069	\$ 11,285	\$ 11,906
Fund Balance as a % of Revenues	14.1%	15.1%	10.3%	5.9%	5.0%
Cash Balance as a % of Revenues	2.2%	8.9%	8.4%	4.3%	1.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 7,431	\$ 3,784	\$ 6,153	\$ 5,221	\$ 9,009
Net Direct Debt / Operating Revenues (x)	0.7x	0.3x	0.6x	0.5x	0.8x
Net Direct Debt / Full Value (%)	1.6%	0.9%	1.5%	1.4%	2.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.6x	1.2x	1.4x	2.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.6%	3.2%	4.2%	6.3%

Total 2016 full value is \$369,664,000.

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Limited Tax Base with Below Average Wealth Indicators

Port Jervis's limited \$370 million tax base has declined an average 4.8% annually over the last five years with contraction slowing to a slight 0.4% decline in 2016. The city is primarily residential with a limited commercial and industrial presence, and is located approximately 80 miles northwest of [New York City](#) (Aa2 stable) bordering the states of [New Jersey](#) (A2 negative) and [Pennsylvania](#) (Aa3 stable). Wealth and income levels are below average, with median family income at 80.7% of the nation and 73.9% of the state. Full value per capita is a modest \$42,939, 49% and 53% of national and state medians, respectively.

The city is still dealing with the effects of the economic downturn, during which it experienced an appreciable increase in residential and commercial foreclosures. The number of delinquent properties has nearly tripled over the last five years, and the city has foreclosed on numerous properties for unpaid taxes. The city has made efforts to rebuild its commercial tax base. In 2015, the city sold at a loss a foreclosed commercial property which will be redeveloped into a microbrewery and café in 2017, and a larger downtown project with six store fronts and six to ten residential apartments will come on line in late 2017 or early 2018. In 2017, the city plans to lease property to a solar manufacturer and purchase renewable energy at a reduced cost.

Over the last several years the city has taken steps to manage residential housing blight. The city began assessing vacant building fees on deed owners of abandoned or foreclosed properties and is developing a program to sell single-family homes, within its tax lien portfolio, to buyers who will occupy them. Additionally in 2015, the city sold 137 tax lien properties. City officials expect these steps and trends to contribute to moderate tax base growth over the next couple of years.

### Financial Operations and Reserves: Financial Position Remains Challenged With Narrow Reserves.

The city's financial position will remain challenged in the near term given recent consecutive years of deficit operations and weak reserve levels. Fiscal 2015 ended with an operating deficit of \$102,000, reducing the available operating funds balance to \$596,000, or a narrow 5% of operating revenues. The operating deficit was partly attributed to a \$300,000 reduction in the city's share of sales tax revenues received from [Orange County](#) (Aa3 stable). Additionally, the city settled two labor contracts, resulting in a one-time payment

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of approximately \$170,000 in retroactive salary increases for the Police unit in fiscal 2015. The city will pay another \$100,000 one-time retroactive salary increase payments for another labor contract in fiscal 2016.

Property taxes account for 38.6% of revenues, and sales tax and state aid account for 32.9% and 13.1% respectively. Expenditures have increased due to rising pension, health care and personnel costs while revenues have lagged due to reductions in sales tax and state aid.

The 2016 approved budget included an 8.5% levy increase, piercing the tax levy cap. Management expects a slight operating surplus of \$100,000, attributed to lower energy costs and increased revenues from collection of vacant building fees. The fiscal 2017 approved budget increased by 3% and included a 7.66% levy increase, piercing the levy cap for the second year in a row. In order to balance future budgets, management expects to expand its vacant building fee collection efforts and implement expenditure controls. However, continued reliance on volatile revenue streams represents a challenge.

#### LIQUIDITY

Liquidity is likely to remain strained in the near term with cash and investments at \$285,000, net of cash flow borrowing, or a narrow 1.9% of operating revenues. Preliminary results suggest that the city's cash position will rebound in 2016 to \$613,872. Additionally, as it has in the past, the city expects to borrow as needed for liquidity from the capital projects and water funds. Access to liquidity from outside the operating funds is a strength.

#### Debt and Pensions

The city's 2015 net direct debt of 2.4% of full valuation will increase over the next three years as the city finances \$20 million in sewer system improvements mandated under a consent decree with the New York State Department of Environmental Conservation. Management expects to finance this initiative from a variety of sources including state loans and grants. If the entire initiative is funded with debt, the City's direct debt burden would increase to approximately \$29 million from \$9 million by 2018. Additionally, in 2015 the city issued \$4 million in BANs to pay for its Water Clarification Project, which will roll into permanent bond financing in 2016. How the city ultimately funds mandated sewer improvements and the extent to which user fees cover sewer improvement related debt service will be important considerations in future rating reviews.

#### DEBT STRUCTURE

All of the city's debt is fixed rate, and amortization of principal is rapid with 100% retired in 10 years. The city issues three month Tax Anticipation Notes each year in October (\$63,368 in fiscal 2015) to make the county whole on the taxes it collects on their behalf; the city is reimbursed by the county in January, coinciding with the note maturity.

#### DEBT-RELATED DERIVATIVES

Port Jervis is not party to any interest rate swap contracts or other derivative agreements.

#### PENSIONS AND OPEB

The city participates in the New York State and Local Employees Retirement System (ERS) 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). In fiscal 2015, the city's full actuarially required contribution (ARC) was \$1.1 million, or 9.4% of operating expenditures. The city's portion of adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$33.5 million in 2015, or an elevated 2.8 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

Since 2013 the city has chosen to amortize a portion of its projected pension obligation. At the end of the 2015 fiscal year, the city had \$255,810 in pension amortizations outstanding. Repayment of the pension amortization will occur in future years.

The OPEB liability is funded on a pay-as-you-go basis, and the city contributed \$687,000 or 5.7% of operating expenditures in fiscal 2015. The total unfunded liability is \$30 million as of July 1, 2014.

Total fixed costs, including debt service, OPEB contributions, and required pension contributions claim an elevated 22% of expenditures.

### Management and Governance

Although recent significant tax increases are an important step towards sustainable structural balance, management will likely continue to struggle to balance budgets, grow fund balance and manage a material increase in debt burden. Management's ability to restore structurally balanced operations and rebuild reserves will be critical factors in future reviews.

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 the city's 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

Not applicable.

### Obligor Profile

The City of Port Jervis has a population of 8,638 (2014 American Community Survey), and is located in Orange County approximately 80 miles northwest of New York City, bordering both New Jersey and Pennsylvania.

### 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.moodys.com](http://www.moodys.com) for a copy of this methodology.

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