

CREDIT OPINION

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 Rate this Research

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Canandaigua (Town of) NY

Update to credit analysis following assignment of initial rating

Summary

The Town of Canandaigua, New York's (Aa2) healthy financial position, low debt and modest unfunded pension liabilities will sustain the town's strong credit profile. The town's credit profile is expected to remain strong and stable over the medium term. Though the town reserves have declined modestly, reserves as a percentage of operating revenues are still well above average for the rating category.

On July 31, 2018, Moody's assigned an Aa2 issuer rating and general obligation limited tax (GOLT) bond rating to the town.

Credit strengths

- » Healthy financial position
- » Low debt and pension burden

Credit challenges

- » Slow principal amortization schedule for newly issued debt
- » Reliance on economically sensitive revenue stream

Rating outlook

Moody's typically does not assign outlooks to local government issuer with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Growth and expansion of the town's tax base and/or demographic profile
- » Maintenance of healthy financial operations

Factors that could lead to a downgrade

- » Contraction of the town's tax base and/or demographic profile
- » Deterioration of the town's financial operations and reserves
- » Significant increase in debt burden

Key indicators

Exhibit 1

Town of Canandaigua, NY

Town of Canandaigua NY	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$1,127,301	\$1,144,822	\$1,207,475	\$1,219,036	\$1,282,355
Population	10,156	10,285	10,390	10,602	10,602
Full Value Per Capita	\$110,999	\$111,310	\$116,215	\$114,982	\$120,954
Median Family Income (% of USMedian)	117.1%	118.6%	115.2%	119.1%	119.1%
Finances					
Operating Revenue (\$000)	\$6,702	\$6,887	\$7,060	\$7,054	\$6,994
Fund Balance (\$000)	\$3,969	\$3,870	\$5,164	\$5,365	\$4,616
Cash Balance (\$000)	\$6,011	\$5,164	\$5,816	\$6,168	\$5,407
Fund Balance as a % of Revenues	59.2%	56.2%	73.1%	76.1%	66.0%
Cash Balance as a % of Revenues	89.7%	75.0%	82.4%	87.4%	77.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$2,023	\$2,292	\$2,329	\$2,147	\$7,014
3-Year Average of Moody's ANFL (\$000)	\$0	\$0	\$5,504	\$5,514	\$5,708
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.5%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.3x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.5%	0.5%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.8x	0.8x	0.8x

Table reflects audited figures through fiscal 2017

Source: Audited Financial Statements, Moody's Investors Service, and US Census

Profile

The Town of Canandaigua is located in Ontario County, approximately 25 miles southeast of the City of Rochester. The town is predominantly rural and residential in nature. In 2016, the town's population was an estimated 10,602.

Detailed credit considerations

Economy and tax base: moderately sized tax base near Rochester

The town's \$1.5 billion tax base will continue to exhibit modest growth over the medium term given an appreciation in existing home values as well as modest ongoing development. The primarily residential \$1.5 billion tax base has increased at a notable average annual rate of 5.9% since 2013, including a significant 17% reassessment increase in 2018. Officials noted that current projections have the town's full value continuing to grow, albeit modestly, given ongoing residential development and improved housing values. The town benefits from its location in Ontario county (Aa1), approximately 23 miles southeast from Rochester (Aa3 Stable) that provides easy access to several employment opportunities.

The town's wealth and income profile is stable and average with median family income at 109.1% and 119.1% of state and national medians, respectively. The town's full value per capita is also very solid at \$135,088. Unlike many neighboring communities where population declines have been severe, the town's population grew modestly the last few years. The town's population currently stands at an estimated 10,602 which is a moderate 6% improvement from the 2010 population of 10,020 according to the US census. At 3.6% in May 2018, the town's unemployment figures are below the state's rate of 3.7% and on par with the national rate of 3.6% for the same time period.

Financial operations and reserves: healthy financial position

Canandaigua's financial position will likely remain healthy over the near term given conservative fiscal management and maintenance of strong reserves. The fiscal 2017 audited financials reflected an operating deficit of \$741,000 attributable to a planned draw on reserves to pay a portion of an outstanding Bond Anticipation Note that is scheduled to mature in September 2018. The town

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transferred General Fund reserves of approximately \$1 million to the Capital Projects Fund which held a negative fund balance of \$2.6 million at the close of fiscal 2017. The deficit decreased the available General Fund balance (committed, assigned, and unassigned) to \$3.6 million or a still robust 113.2% of revenues. Across core operating funds (General Fund, Highway Fund), the town closed with an available fund balance of \$4.6 million or a solid 66% of revenues.

Fiscal 2018 unaudited year to date figures are balanced and officials noted no plans to draw on reserves. Though currently there are no plans to draw on reserves, officials did indicate that the Capital Projects Fund will end the year with a positive fund balance. The town is in the preliminary stages of forming the 2019 budget and did not indicate any material use of reserves.

The majority of revenues are derived from sales taxes (64% fiscal 2017) followed by property taxes (16.4%). The town's largest expenditures are transportation (46.7% of fiscal 2017 expenditures), general government (15.3%), and employee benefits (11.3%).

LIQUIDITY

The town's liquidity has declined modestly but remains strong. Cash and investments at the end of fiscal 2017 totaled \$5.4 million or a healthy 77.3% of revenues from fiscal 2013 total of \$6 million.

Debt and pensions: below average debt burden; pension liability is modest

The town's debt burden is low and will likely remain low given the limited future capital planning and modest growth of the town's tax base. The debt burden is modest with a direct debt burden at 0.7% of full value and overall debt burden at 2.5% including obligations of overlapping jurisdictions. Town officials noted potential future borrowing for a water booster station and a sanitary sewer project but the exact amount and timeline has yet to be determined. Fixed costs, including debt service, pension, and other post employment benefits (OPEB) contributions are manageable at 13.8% of revenues.

DEBT STRUCTURE

All debt is in fixed rate obligations with a weaker than average amortization rate of 55.7% of debt repaid in 10 years.

DEBT-RELATED DERIVATIVES

Canandaigua is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The pension liability is modest and manageable. In fiscal 2017, contributions equaled \$266,000 or 3.8% of revenues. The town participates in the New York State Employees' Retirement System (ERS), a multi-employer defined benefit retirement plans sponsored by the State of New York (Aa1 stable). The Moody's single year fiscal 2017 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$5.1 million, or a modest 0.72X revenues. The tread water payment was a healthy 117% of contributions in fiscal 2017.

Additionally, OPEB is provided to retirees through a single employer defined benefit pension plan. The OPEB liability is funded on a pay-as-you go basis, fiscal 2017 contributions were a minimal \$28,000 (0.4% of revenues). The town currently has two retirees enrolled in the retirement plan at December 31, 2017.

Management and governance: moderate institutional framework

Management has produced strong results and maintained a healthy fund balance reflecting conservative management.

New York Towns have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. New York Towns operate within a state-imposed property tax cap, which limits the ability to increase their operating levy by the lesser of 2% or CPI (before adjusting for exemptions and rollovers). 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.

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