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## Summary:

# Cortland, New York; General Obligation

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### Credit Profile

Cortland GO (AGM)

*Unenhanced Rating*

A+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) on Cortland, N.Y.'s outstanding general obligation (GO) bonds two notches to 'A+' from 'A-', based on its local GO criteria released Sept. 12, 2013. The outlook is stable.

The city's faith and credit pledge secures the outstanding GO bonds.

The rating reflects our opinion of the following factors for the city:

- We view Cortland's local economy as weak, with projected per capita effective buying income and per capita market value at 66% of the national average and roughly \$27,340, respectively. The Cortland County unemployment rate averaged 7.9% in 2013, according to the Bureau of Labor Statistics. Residents have access to the employment bases of Syracuse, Ithaca, and Binghamton, though most work in the city itself. The State University of New York (SUNY), with its large enrollment (16,077), acts as a stabilizing institution and is a credit strength, in our opinion.
- The city's budgetary flexibility is, in our view, very strong, with available reserves at \$3.2 million, or 18.3% of operating expenditures in fiscal 2012 (Dec. 31 year-end). The draft audited figures for fiscal 2013 indicate that the city ended with an available fund balance of roughly \$3.7 million, or 20.4% of expenditures. As per year-to-date operations, management projects to end with a \$200,000 addition to the fund balance. The city has not used reserves to balance the budget for fiscal 2015. We expect the city to maintain its fund balance above 15% as management does not plan to significantly use reserves over the medium term.
- We feel Cortland's budgetary performance to be strong overall, with a surplus of 2.5% for the general fund and a surplus of 2.3% for the total governmental funds as per the draft audit of fiscal 2013. As per the audit for fiscal 2012, the general fund result was a 0.4% operating surplus. Management attributes recent surpluses to favorable growth in sales tax revenues. Management projects to end fiscal 2014 with a surplus of 1.1% in the general fund. The city has budgeted for break-even operations in fiscal 2015.
- In our view, very strong liquidity supports Cortland's finances, with total government available cash at 27.7% of total government fund expenditures and at 2.7x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.
- In our view, Cortland's management conditions are very strong with "strong" financial practices under our Financial Management Assessment methodology, indicating practices are, in our opinion, strong, well embedded, and likely sustainable. Strengths of the assessment, in our opinion, include strong oversight in terms of monitoring progress against the budget during the year, a long-term financial plan with four-year forecasting, and a five-year long-term capital plan.

- We view Cortland's debt and contingent liabilities profile as weak. Total governmental fund debt service is 10.3% of total governmental funds expenditures and net direct debt is 54.9% of total governmental funds revenue. Approximately 67% of the debt is to be repaid over 10 years, which is, in our opinion, a positive credit factor. We understand that the management does not plan to issue new money debt in near future.
- Cortland participates in the state's pension systems, and it fully funds the annual required contribution. The city also provides other postemployment benefits (OPEBs), which it funds on pay-as-you-go basis. Cortland's actual combined pension and OPEB cost was 15.6% of total expenditures, which we consider elevated.
- We consider the Institutional Framework score for New York strong.

## Outlook

The stable outlook reflects Standard & Poor's expectation that Cortland will continue to report strong budgetary performance through proactive measures to address any budgetary pressure and maintain reserves at very strong levels. In our view, deterioration in the fund balance due to weak budgetary performance may pressure the rating downwards, but this is unlikely within the two-year outlook horizon. On the other hand, improvement in economic indicators, coupled with addressing retirement cost pressures, keeping other factors constant, may result in upward rating movement.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New York Local Governments

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