

# RatingsDirect®

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## Summary:

# Cortland, New York; General Obligation

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### Credit Profile

Cortland pub imp rfdg serial bnds ser 2017 due 06/01/2031

*Long Term Rating*

A+/Stable

Affirmed, Removed from  
CreditWatch

Cortland GO (AGM)

*Unenhanced Rating*

A+(SPUR)/Stable

Affirmed, Removed from  
CreditWatch

Cortland GO (AGM)

*Unenhanced Rating*

A+(SPUR)/Stable

Affirmed, Removed from  
CreditWatch

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings affirmed its 'A+' long-term rating on the City of Cortland, N.Y.'s general obligation (GO) debt. At the same time, S&P Global Ratings also removed the rating from CreditWatch, where it was placed with negative implications June 20, 2017. The outlook is stable.

The affirmation and CreditWatch resolution reflect our expectation that the updated procedures for managing debt service schedules management has put in place following the missed interest payment on June 1, 2017, will prevent a missed payment. Management will now independently verify final payment and interest dates and update its in-house debt service schedule accordingly.

The city's faith and credit pledge secures its GO bonds, including the statutory authorization to levy ad valorem taxes on all real property in Cortland.

The rating reflects our assessment of the county's:

- Weak economy, with market value per capita of \$28,332 and projected per capita effective buying income at 63.0%, but that is benefitting from a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.7% of total governmental fund expenditures and 5.7x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 7.4% of expenditures and net direct debt that is 85.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and

- Strong institutional framework score.

### **Weak economy**

We consider Cortland's economy weak. The city, with an estimated population of 19,146, is located in Cortland County. The city benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 63.0% of the national level and a low per capita market value of \$28,332 in 2017, which, in our view, indicates a limited tax base supporting the debt and is a negative credit factor. Overall, the city's market value grew by 1.2% over the past year to \$542.4 million in 2017. The county unemployment rate was 5.7% in 2016.

Cortland is in central New York State and is the seat of Cortland County. It is about 37 miles south of Syracuse and 21 miles northeast of Ithaca. Residents have access to the employment opportunities in Syracuse, Ithaca, and the city itself. Leading city employers include State University of New York (SUNY) Cortland (1,000 employees), Cortland Regional Medical Center (750), and Pall Trinity Micro Corp. (a manufacturer of industrial filters and filtration systems with 750 employees). While Cortland's market values have increased slightly, assessed values have been more or less flat for over five years. SUNY Cortland is in the city and many of the university's 6,900 students live in Cortland, which we believe is somewhat suppressing wealth levels.

### **Strong management**

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them regularly.

In light of recent events, we have revised our assessment of Cortland's debt management policy to standard from strong. While there are policies in place that are widely communicated, we believe the city might not have strong reporting and monitoring mechanisms, given that officials did not notice and update debt payment schedules in time to make an interest payment. While this does not alter our overall opinion of Cortland's management, we will monitor if the changes to policies and procedures continue to be effective.

Other management practices include the use of up to 20 years of historical trends and future statewide factors to build revenue and expenditure assumptions. Budget policies outline guidelines for revenues and expenditures.

Budget-to-actuals and investment earnings are reported to the council on a monthly basis. If needed, the city can amend the budget. Cortland has a formal five-year financial plan that it updates annually. It has formally adopted policies for investments and reserves, and complies with all. Highlights include a minimum fund balance level of at least 17% of operating expenditures for the purpose of providing the city with additional funding if other committed reserves are exhausted. The city's debt policy limits debt service to 12% of general fund expenditures and 8% of Cortland's total assessed value.

### **Strong budgetary performance**

Cortland's budgetary performance is strong in our opinion. The city had operating surpluses of 2.8% of expenditures in the general fund and of 4.5% across all governmental funds in fiscal 2015. General fund operating results have been stable over the past three years, with a result of 2.8% in 2014 and 2.5% in 2013.

Since fiscal 2009, Cortland's performance has been strong, with modest surpluses leading to increasing reserves. The

city attributes these surpluses to conservative budgeting practices and close monitoring of spending at the department level. While sales tax revenues have seen declines due to lower gas prices, Cortland has managed the reduction with no effect on performance. Results were adjusted for regular transfers into the general fund from the water and sewer funds, as well as one-time capital spending costs.

Management reports that fiscal 2016 closed with a nominal surplus, despite revenues falling short of expectations. The city managed its spending to generate savings to cover the lost revenues. Fiscal 2017, which was balanced without the use of reserves, is trending well according to management. Sales tax revenues might be down again, but Cortland is proactively managing overtime costs to keep expenditures down in the event of a revenue shortfall. Given the city's history of balanced operations, we expect strong performance to continue.

### **Very strong budgetary flexibility**

Cortland's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 26% of operating expenditures, or \$4.7 million.

The city maintains a very comprehensive fund balance policy that commits reserves for various purposes to ensure Cortland can meet expenditures from unanticipated circumstances and events. These committed reserves include reserves for tax stabilization, natural disasters and emergencies, equipment replacement, and snow removal, among others. While the city strategically commits these reserves according to policy, it can make reserves available for other uses should council vote to do so. As such, we view Cortland as having maintained very strong reserves for the past three fiscal years, including these reserves, and expect the city will continue doing so.

### **Very strong liquidity**

In our opinion, Cortland's liquidity is very strong, with total government available cash at 42.7% of total governmental fund expenditures and 5.7x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Cortland does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. The city maintains what we view as strong access to external liquidity, with long-term bond issuances within the past 15 years.

### **Very weak debt and contingent liability profile**

In our view, Cortland's debt and contingent liability profile is very weak. Total governmental fund debt service is 7.4% of total governmental fund expenditures, and net direct debt is 85.2% of total governmental fund revenue.

The city could issue additional debt of about \$4.6 million in the next two years. We do not anticipate this materially changing our view of Cortland's debt profile, particularly given that the expect grant funding would reimburse these costs.

In our opinion, a credit weakness is the city's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Cortland's combined required pension and actual OPEB contributions totaled 14.9% of total governmental fund expenditures in 2015. Of that amount, 8.0% represented required contributions to pension obligations, and 7.0% represented OPEB payments. The city made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 99.0%.

Cortland participates in the New York State and Local Employees' Retirement System (ERS) and Police and Fire System (PFRS). As of March 31, 2015, the plans' fiduciary net position to total pension liabilities were 97.9% for ERS and 99.0% for PFRS. The city contributes 100% of its employer contribution to the state and, despite having the option to do so, has not elected to amortize portions of its contributions in accordance with state statutes. It also provides OPEBs to eligible employees funded on a pay-as-you-go basis. The unfunded liability was about \$25.96 million as of Dec 31, 2015. New York State does not allow the prefunding of OPEB obligations. We believe these long-term liabilities will continue to create budgetary pressure in future years.

### **Strong institutional framework**

The institutional framework score for New York cities (other than the city of New York) is strong.

## **Outlook**

The stable outlook reflects S&P Global Ratings' expectation that Cortland's additional procedures will ensure timely payment of principal and interest. The city's consistently strong performance and very strong reserves lend stability to the rating. As such, we do not expect to raise or lower the rating in the next two years.

### **Upside scenario**

Upward rating movement is contingent upon improved economic metrics that are more in line with those of higher rated peers, as well as improvement to Cortland's debt and long-term liability profile.

### **Downside scenario**

Should unexpected performance deteriorate resulting drawdowns to reserves below levels we consider adequate, we could lower the rating.

## **Related Research**

- 2016 Update Of Institutional Framework For U.S. Local Governments
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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