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Ratings

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Summary:

Oneida, New York; General Obligation

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Credit Profile		
US$1.507 mil GO pub imp serial bnds ser 2019 due 10/01/2033		
Long Term Rating	AA-/Stable	New
Oneida pub imp (serial) bnds		
Long Term Rating	AA-/Stable	Affirmed
Oneida GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Oneida GO (MAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Oneida, N.Y.'s general obligation (GO) public improvement (serial) bonds, series 2019. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's existing GO debt. The outlook is stable.

Security and use of proceeds

The 2019 bonds, with a par amount of $1.5 million, are a GO of the city, backed by all taxable real property subject to the levy of ad valorem taxes. The bonds will finance various capital projects, including an LED lighting program, a department of public works vehicle, and pool improvements.

Credit overview

Oneida experienced significant flooding in 2013. The recovery is now mostly complete, but the city is awaiting reimbursement funds from the Federal Emergency Management Agency (FEMA). Therefore, the general fund cash position has weakened, while the audit line for money due from other governments has grown. On the surface, these two audit conditions look negative, but we expect the cash position to return to higher levels upon receipt of the FEMA money and with some self-reimbursements through a bond anticipation note (BAN). For a relatively small upstate city, Oneida has been successful in attracting and retaining businesses. With the completion of two additional buildings under construction, the business park will be full and businesses are expanding into other parts of the city. Along with strong management practices and reserve levels, this economic activity should allow for stable credit conditions in the near term.

The rating reflects our assessment of the following factors for the city, including its:

- Weak economy, with projected per capita effective buying income at 83.6% and market value per capita of $42,742, although that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA)

methodology;

- Adequate budgetary performance, with an operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.5% of total governmental fund expenditures and 4.1x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 4.7% of expenditures and net direct debt that is 70.3% of total governmental fund revenue, as well as a large pension and other postemployment benefits (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Weak economy

We consider Oneida's economy weak. The city, with an estimated population of 10,935, is in Madison County in the Syracuse MSA, which we consider to be broad and diverse. Oneida is a primarily residential community, located approximately 20 miles west of Utica and about 25 miles east of Syracuse. Interstate Highway 90 (New York State Thruway) and other state highways connect city residents to regional employment centers. The local economy features employment in health care, education, manufacturing, commercial trade, and other professional services. Additional employment opportunities are available at the nearby Turning Stone casino on the Oneida Indian Nation. The county unemployment rate was 4.1% in July 2019, which is below the state's 4.2%, both of which we consider close to full employment.

The city's leading private employers include Oneida Health Care Center (850 employees), Wal-Mart (450), HP Hood (200), and Oneida Molded Plastics (140). The hospital just opened a new cancer center and HP Hood is expanding its product lines, now producing oat milk at its facility. Leading taxpayers account for 17.3% of the city's total assessed value base, which, in our view, represents a diverse tax base. According to officials, the city does not have any tax certiorari claims outstanding that would have a material effect on its tax base. Overall, the city's market value grew by 0.6% over the past year to $467.4 million in 2019.

Based on Oneida's stable, albeit weak, wealth and income factors, we do not expect to change our view of its economy over the next two years. But, with the continued growth at All-Seasonings Ingredients Inc. (constructing two additional facilities) and a number of greenhouses being constructed by Green Empire Farms, we also do not expect it to deteriorate.

Strong management

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

The city uses four-five years of historical revenue and expenditure assumptions to guide the development of its annual budget. Finance officials incorporate changes related to contractual obligations and retirement costs, and build conservative revenue projections for property taxes, non-property taxes, and revenue from state sources. During each fiscal year, finance officials monitor revenue and expenditure performance regularly and present monthly budget-to-actual reports to the city council. The city can amend the budget as necessary with approval from the board.

Although the city does not maintain a formal capital improvement plan, it maintains a five-year financial forecast that it updates annually. The financial forecast incorporates conservative forward-looking revenue and expenditure trends.

Oneida maintains a formally adopted investment policy, which mirrors state guidelines governing the use of investments. Management reports investment earnings and holdings to the mayor and city council monthly. Oneida also maintains a formal fund balance policy, which stipulates a minimum fund balance of 20% of budgeted expenditures, of which undesignated general fund balance comprises an amount equal to at least two months of general fund expenditures. However, the city does not have a debt management policy.

Adequate budgetary performance

Oneida's budgetary performance is adequate, in our opinion. The city had deficit operating results in the general fund of 3.0% of expenditures, but a slight surplus result across all governmental funds of 0.9% in fiscal 2018.

The fiscal 2018 audit shows a $282,000 deficit for the year, but management is comfortable with that performance because the fund balance still remains above the policy goal. The fund balance is $3.2 million, or 26.3% of expenditures. This is down from a high of over $3.5 million, or 29.9%, in fiscal 2017. The city knew that the sales tax remittance from the state would be about $275,000 less than in the prior year due to a state discrepancy. As budgeted, though, the sales tax came in $5,300 over budget.

The adopted general fund budget for fiscal 2019 totals $13.1 million, or 6.5% higher than in the previous year. According to management, the year-over-year increase to appropriations reflects one-time infrastructure maintenance and employee benefit expenditures. The city also approved an override of the levy limit, increasing the property tax levy by 5% over the previous year to balance the budget. Oneida benefits from a historically diverse revenue mix supporting general fund operations. In fiscal 2019, locally generated tax revenue represented 75% of the budget, with sales tax accounting for 40.5% and property taxes at 36.7%. State aid accounted for 15.1% of fiscal 2019 general fund revenues. However, while management generally uses conservative revenue assumptions in the budget, we believe the city's primary revenue source is sensitive to adverse economic conditions or potential fluctuations due to a technical adjustment of sales tax proceeds from the state to another taxing entity.

Based on mid-year budgetary performance, the city expects a slight deficit at fiscal year-end Dec. 31, 2019, as fund balance usage is higher than planned. However, due to management's year-end projections for fiscal 2019, we believe fund balance will likely remain about the same. While the city is in the preliminary stage of developing its fiscal 2020 budget, management has entered into a new arrangement to lease and not buy certain city vehicles, and is exploring shared service agreements with the county.

Very strong budgetary flexibility

Oneida's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 26% of operating expenditures, or $3.2 million. The city intends to continue to include fund balance into the subsequent year's budget. The city monitors revenue trends and adjusts operating expenditures, and intends to continue to do so for fiscal 2020 to maintain, at least, balanced operations. Therefore, we expect Oneida's flexibility to remain very strong over the next two years.

Very strong liquidity

In our opinion, Oneida's liquidity is very strong, with total government available cash at 19.5% of total governmental fund expenditures and 4.1x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Oneida's strong access to external liquidity, in our view, reflects its issuance of GO bonds and notes over the past 20 years. Furthermore, the majority of Oneida's cash is invested in money market funds and certificates of deposits, which we do not view as aggressive.

Finance officials also confirmed that the city does not have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. In addition, it does not have any variable-rate or direct-purchase debt. For these reasons, we believe the city's liquidity should remain very strong.

Very weak debt and contingent liability profile

In our view, Oneida's debt and contingent liability profile is very weak. Total governmental fund debt service is 4.7% of total governmental fund expenditures, and net direct debt is 70.3% of total governmental fund revenue.

Following the current issuance, the city's total direct debt outstanding is $18.8 million, of which $14.3 million is GO bonds and the remainder is GO BANs. The Oneida Public Library, a separate governmental entity, is undergoing an expansion. The city issues debt on behalf of the library, but the revenues to repay it come from the city and five other jurisdictions. The city's current share of the $4.4 million library BANs is $2.7 million. In addition, the city's proportionate share of debt related to overlapping entities (county and school districts) is approximately $3.6 million.

The city does not have a formal capital plan, but indicates it does not have many projects being considered for debt, other than a major wastewater project. The $34 million project is driven by a consent order with the state department of environmental conservation.

In our opinion, a credit weakness is Oneida's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Oneida's combined required pension and actual OPEB contributions totaled 9.2% of total governmental fund expenditures in 2018. Of that amount, 4.9% represented required contributions to pension obligations, and 4.3% represented OPEB payments. The city made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 96.9%.

The city made 100% of its annual contribution in 2018 of $1.3 million. Oneida participates in the New York State Employees' Retirement System (ERS) and the Police and Fire Retirement System (PFRS), which were about 98.2% and 98% funded at March 31, 2018, respectively, based on Governmental Accounting Standards Board Statement Nos. 67 and 68 reporting for pension assets and liabilities. We view the plans' actuarial assumptions, including an assumed rate of return of 7%, as generally reasonable as they are slightly more conservative than the national average.

Oneida also offers OPEB to 209 current and former employees. The city funds this cost on a pay-as-you-go basis. We also note that the state does not allow for the prefunding of OPEB and that the city's $38.8 million liability as of Dec. 31, 2018, remains fully unfunded. We consider these long-term liabilities a limiting credit factor. If these costs continue to accelerate without mitigating adjustments by officials, fiscal performance and, ultimately the rating, could be pressured.

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 our expectation that the city will continue to sustain its very strong budgetary flexibility and liquidity. It also reflects our view of the city's strong management practices and policy framework, which will likely support its identification of revenue and expenditure adjustments to maintain, at least, adequate budgetary performance. Furthermore, the city's access to a broad and diverse MSA supports the outlook. For these reasons, we do not expect to change the outlook over the next two years.

Upside scenario

Given the city's limited tax base development, in conjunction with weak wealth and income indicators relative to those of higher-rated peers, we do not anticipate raising the rating within the outlook period. However, should these economic factors improve substantially and the city demonstrates and sustains the ability to absorb rising fixed costs while maintaining adequate-to-strong budgetary performance, we could raise the rating.

Downside scenario

Should the city's budgetary performance deteriorate--due to pressure from rising operating expenditures, shortfalls in key revenue sources, or otherwise--leading to a significant weakening of reserves or liquidity to a level we no longer view as commensurate with that of similarly rated peers, we could lower the rating.

Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments