MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 RATING TO ONONDAGA COUNTY'S (NY) $48.7 MILLION GENERAL OBLIGATION (SERIAL) BONDS, 2010 SERIES A AND $4.9 MILLION GENERAL OBLIGATION (SERIAL) BONDS, 2010 (RZED)

Global Credit Research - 08 Jun 2010

Aa1 RATING APPLIES TO $297 MILLION OF OUTSTANDING GENERAL OBLIGATION DEBT, INCLUDING THE CURRENT ISSUE

County
NY

Moody's Rating

ISSUE		RATING
General Obligation Serial Bonds, 2010 Series A		Aa1
Sale Amount	$48,720,000	
Expected Sale Date	06/15/10	
Rating Description	General Obligation	
General Obligation Serial Bonds, 2010 (Federally Taxable - Recovery Zone Bonds)		Aa1
Sale Amount	$4,905,000	
Expected Sale Date	06/15/10	
Rating Description	General Obligation	

Opinion

NEW YORK, Jun 8, 2010 -- Moody's Investors Service has assigned a Aa1 rating to Onondaga County's (NY) $48.7 million General Obligation (Serial) Bonds, 2010 Series A and $4.9 million General Obligation (Serial) Bonds, 2010 (Federally Taxable - Recovery Zone Bonds). Concurrently, Moody's has also affirmed the Aa1 rating on the county's $243 million of outstanding parity debt. The bonds are secured by the county's general obligation unlimited property tax pledge. The Aa1 rating reflects the county's well-managed financial operations with satisfactory reserve levels that are expected to stabilize in the near-term, sizable and diverse economic base with new signs of growth, and a manageable debt position.

RESERVES EXPECTED TO REMAIN ADEQUATE DESPITE RECENT DRAWS GIVEN MITIGATION OF 2009 REVENUE SHORTFALL AND REVENUE ENHANCEMENTS FROM SALES TAX SHARING AGREEMENT

Moody's expects the county's financial position to remain sound with adequate reserve levels despite recent operating deficits, given a history of strong fiscal management as evidenced by the effective mitigation of a significant $32 million revenue shortfall and actual $4 million operating surplus in 2009 (year ended December 31st). While the expected use of a portion of the $12.4 million of appropriated reserves in the 2010 budget may diminish reserves to even narrower levels, fund balance is not expected to fall below the county's formal policy of maintaining unreserved General Fund balance at 10% of General Fund revenues (net of sales tax pass through). The county is expected to maintain sufficient flexibility to offset exposure to economically sensitive sales tax receipts (24% of 2009 unaudited revenues) and potential state aid cuts. The 2011 budget year is expected to present another challenge for Onondaga, as with most New York counties, given pension funding pressures coupled with potential state aid cuts and a sizeable funding gap created by the loss of additional federal aid from the increased Federal Medicaid Assistance Percentage (FMAP). Importantly, the county intends to restore reserve levels and address the 2011 budget pressures with revenue enhancements from the newly adopted sales tax sharing agreement, effectively increasing the county's share of sales tax receipts. Projected savings from the newly adopted ten year sales tax sharing agreement are ramping up over the next three years (2011 through 2013), and provides modest annual increases annually in each year thereafter. Assuming a modest 1% increase in sales tax revenues and the changes in revenue sharing, the county anticipates receiving an additional $67 million in 2011, $11 million in 2012 and $8 million in 2013 of sales tax revenue.

The county has a history of drawing down on its reserves during difficult times, as it did from 2001 to 2004 when $23.4 million was utilized due to rapid employee benefit and Medicaid cost increases; and subsequently rebuilding these reserves by raising recurring revenues and cutting expenditures, as it did in 2005 and 2006 resulting in a combined $35.5 million two-year surplus that increased General Fund balance to $84.36 million or a satisfactory 15.2% of operating revenues net of the $144 million sales tax pass through to underlying municipalities. This trend has begun to repeat with moderate deficits totaling $13.6 million for fiscal 2007 and 2008. Importantly, fiscal 2007 operations demonstrated a $13 million structural surplus despite the use of $4 million from reserves in that year; given an $88million one-time transfer to the Capital Projects Fund for pay-go capital. Given a $2.6 million surplus in the Debt Service Fund, on a combined operating basis (General and Debt Service Funds), fiscal 2008 operations resulted in a $7 million combined deficit and total available reserves, including unreserved General Fund balance and Debt Service Fund balance was $102 million (a $27.7 million portion of which is reserved to support water and sewer projects) or a solid 18.4% of revenues net of the sales tax pass through. The 2008 deficit was primarily due to a higher reserve appropriation ($8 million compared to $1.1 million in 2007) coupled with underperforming revenues ($6.8 million) from lower property tax collections ($3.2 million), interest earnings ($1.6 million), and service charges ($2.3 million.).Fiscal 2009 ended with higher $81.66 million combined available balance in the General and Debt Service Funds which represented a satisfactory 14.55% of operating revenues (net of sales tax pass through). The recession of 2009 drove an estimated $33.8 million revenue shortfall from underperforming sales tax ($29.2 million) and property taxes ($3.6 million). This shortfall coupled with the $5.3 million operating reserve appropriation (General and Debt Service Funds combined) created a $39.1 million budgetary gap. The majority of the gap was filled with $19.5 million from increased FMAP funds, with the remainder closed with a $13.3 million tax lien sale (first time for the county; $11.3 million for General Fund and $2 million for Water and Sewer Funds), and proactive expenditure cuts that netted $8 million in savings. At year-end, officials effectuated a moderate $4 million surplus in the General Fund. The county's 2009 tax lien sale is utilizing a unique security structure, whereby management sold $15 million of delinquent taxes for 2007 to 2009 in the form of three year certificates to

investors at an interest rate of 33.5%. The county received $13 million in cash up front and will guarantee the payment of the certificates, which it will pay with its delinquent collections that have historically averaged 86% within three years. Should the collection rate fall below historic norms, as is possible given the economic climate, this guarantee may place additional pressure on county operations.

The 2010 budget decreased by $18 million or 2.3% budget-to-budget and includes a $7.9 million General Fund reserve appropriation and a $4.5 million Debt Service Fund reserve appropriation. Positively, the county reduced budget estimates for sales tax ($515 million below 2008 actual collections and $1.4 million above 2009 actual collections), state aid ($6 million below 2009 budget), and FMAP ($13.77 million of the $15 million allocation); eliminated 257 funded positions including 00100 layoffs and 38 retirements; and added two new fees ($2.1 million motor vehicle fee and $1.7 million E911 fee). In addition, the county incorporated a $7.77 million increase to the pension contribution. Year to date operations indicate that operations remain within budgeted expectations, incorporating $1.1 million of higher than budgeted sales tax revenues, $4.7 million reduction in uncollected taxes due to the tax lien sale, and expenditure savings which will enable the county to balance operations. Moody's expects the county to continue to closely monitor its expenditures and revenue performance throughout the year to mitigate potential revenue declines and state aid cuts. Management expects to utilize appropriated fund balance at year-end but will likely remain in compliance with the county's 10% reserve policy. Should this occur, Moody's believes the county will take the necessary steps to remedy the shortfall in the subsequent year's budget as diminished reserve levels would weaken the county's credit profile.

DIVERSE LOCAL ECONOMY DEMONSTRATES EMERGENT GROWTH POTENTIAL

Moody's expects growth in the county's sizable $26 billion tax base will be modest over the near-term given ongoing delays to the Carousel Mall expansion and the recessionary economic environment, although ongoing redevelopment efforts are expected to bring a return to moderate growth over the intermediate term. The county's tax base derives stability from the presence of major medical and educational facilities that are currently expanding and contribute to the stable employment base as evident in the March 2010 unemployment rate of 7.9%, which is below both the state and national levels (8.8% and 10.2%, respectively). The county's socio-economic indices, while satisfactory relative to New York upstate communities, remain below national medians for Aa-rated counties. After showing signs of stabilization following declines throughout the 1990s, the county's population has reportedly decreased by a marginal 0.1% from 2000 to 2008, based on estimated figures. Despite these trends, positive growth in taxable assessed values in this decade reversed the previous stagnation, resulting in 4.6% average annual growth over the last five years.

The 850,000 square foot Carousel Mall expansion, which represents Phase I of the multi-phase "DestiNY" project, was scheduled to open this past summer but has been delayed due to litigation with the developer's construction lender Citigroup Inc. (senior unsecured rated A3/stable outlook). In July 2009, the New York Supreme Court ordered Citigroup to continue to make loan disbursements to the project, and the decision was recently upheld in November 2009 by the Appellate Division of the Supreme Court in Rochester; however, Citigroup is currently requesting to have the New York State Court of Appeals in Albany review the Appellate Division's order. Construction halted in June 2009 and remains delayed with the resolution of the court appeal and the project completion date still uncertain. This litigation only further delays the larger "DestiNY" project that is already uncertain given the economic downturn, yet could have a significant long-term economic impact.

Currently, industry development initiatives related to renewable energy, biotechnology, and healthcare continue to move forward, as well as traditional manufacturing. Specifically, the downtown $35.6 million New York State Center for Excellence in Energy and Environmental Technologies opened in March and was developed in partnership with Syracuse University (rated Aa3/stable outlook) and SUNY's College of Environmental Science and Forestry and private businesses. This center is expected bolster renewable energy initiatives, including a $200 million six-year mixed use project with 500,000 square feet of taxable office, retail, and residential space. In addition, Upstate Medical University recently opened a $140 million new children's hospital and is expected to move forward with its proposed $500 million Biotechnology Center downtown development with residential, clinical, and research facilities. St. Joseph's Hospital received approval of its certificate of need from the state to begin its $245 million project including an expansion of its emergency department and the addition of 110 private patient rooms. The Syracuse Veterans Affairs Medical Center recently broke ground on its $90 million new six-story building. The recent announcement of the construction of a new $26.6 million electric car manufacturing plant is expected to bring 100 new jobs in the next two years.

MANAGEABLE DEBT BURDEN WITH REDUCED LAKE BORROWING EXPECTED

Moody's believes the county's average direct debt burden at 1.2% of full valuation will remain manageable, despite potential future borrowings related to the Onondaga Lake remediation project (discussed below), given the self-supporting nature of the county's sewer and water debt obligations (40% of county debt) and average amortization of principal (63.4% retired within 10 years). The county's overall debt burden is an above average 4.7% of full valuation due to significant overlapping debt obligations from the school districts (52% of overlapping debt), the City of Syracuse (35% of overlapping debt), and other towns, villages, and fire districts. The overall debt burden reduces substantially to an average 2.6% when state-supported school construction debt is excluded. The county's $783.6 million six-year capital improvement plan is projected to be 75% bond funded, with 42% for general fund related projects and 58% for water, sewer, and nursing home enterprise related projects. Officials report that projects will likely be delayed due to the additional recurring costs the county's budget would have to absorb during the current economic downturn.

The largest project on the horizon relates to the Onondaga Lake remediation project with an estimated total project cost of approximately $635635 million. The county is working with the state to scale back the project's scope in order to incorporate modern storm water flow control techniques expected to remove the need to complete a costly upgrade to the treatment plant, as well as changing to gray technology versus the more costly green technology. This may reduce remaining project costs by up to 50%, which coupled with expected state and federal grants may significantly reduce the county's future borrowings. In addition, the county has set aside approximately $67.77 million of cash in its Debt Service and Water Environment Protection funds to offset the costs and/or debt service associated with this project, which is expected to be financed through the New York State Environmental Facilities Corporation (EFC). Moody's believes that the county's efforts to closely manage project costs and maximize federal and state resources will assure that any additional debt will remain manageable under the current project scope. The county has no exposure to variable debt and is not party to any derivative agreements.

KEY STATISTICS

2008 Population (est.): 457,714 (0.1% decrease since 2000)

2010 Full Valuation: $26.1 billion

2010 Full Valuation Per Capita (as % of NY and US): $57,121 (113% and 76%)

1999 Per Capita Income (as % of NY and US): $21,336 (91% and 99%)

1999 Median Family Income (as % of NY and US): $51,876 (100% and 104%)

Unemployment (September 2009): 7.5% (8.5% for NY and 9.5% for US)

Direct Debt Burden: 1.2%

Overall Debt Burden: 4.7%

Adjusted Overall Debt Burden: 2.6%

Payout of Principal (10 years): 63.4%

2008 General Fund balance: $70.7 million (12.8% of General Fund revenues net of sales tax pass through)

2008 Unreserved, Undesignated General Fund balance: $59.9 million (10.8% of General Fund revenues net of sales tax pass through)

2008 Available fund balance (Unreserved, Undesignated General Fund balance + Debt Service Fund balance): $68.3 million (12.4% of Operating Fund revenues net of sales tax pass through)

2009 General Fund balance: $74.7 million (13.5% of General Fund revenues net of sales tax pass through)

2009 Unreserved, Undesignated General Fund balance: $60.6 million (10.8% of General Fund revenues net of sales tax pass through)

2009 Available fund balance (Unreserved, Undesignated General Fund balance + Available Debt Service Fund balance): $72.4 million (13% of General Fund revenues net of sales tax pass through)

Post-sale Parity Debt Outstanding: $436 million ($297million GO bonds, $130 million EFC loans, and $8.8 million bond anticipation notes)

RATING METHODOLOGY USED AND LAST RATING ACTION TAKEN

The principal methodology used in rating Onondaga County, NY was "General Obligation Bonds Issued by U.S. Local Governments," published on October 30, 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on November 30, 2009 when the Aa2 rating of Onondaga County, NY was affirmed. That rating was subsequently recalibrated to Aa1 on April 16, 2010.

Analysts

Neene Owate
Analyst
Public Finance Group
Moody's Investors Service

Lisa Cole
Backup Analyst
Public Finance Group
Moody's Investors Service

Patrick Mispagel
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

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