MOODY'S
INVESTORS SERVICE

New Issue: MOODY'S ASSIGNS Aa1 RATING TO ONONDAGA COUNTY'S (NY) $33.8 MILLION GENERAL OBLIGATION (SERIAL) BONDS, 2011

Global Credit Research - 16 Jun 2011

Aa1 RATING APPLIES TO $247 MILLION OF OUTSTANDING GENERAL OBLIGATION DEBT

County
NY

Moody's Rating

ISSUE	RATING
General Obligation (Serial) Bonds, 2011	Aa1

Sale Amount	$33,755,000
Expected Sale Date	06/28/11
Rating Description	General Obligation

Opinion

NEW YORK, Jun 16, 2011 -- Moody's Investors Service has assigned a Aa1 rating to Onondaga County's (NY) $33.8 million General Obligation (Serial) Bonds, 2011. Concurrently, Moody's has also affirmed the Aa1 rating on the county's $247 million of outstanding parity debt. The bonds are secured by the county's general obligation unlimited property tax pledge.

RATINGS RATIONALE

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.

STRENGTHS

-Sizable and diverse economy

-Strong management maintains reserves within county policy

CHALLENGES

-Significant exposure to economically sensitive sales tax revenue

-Expenditure pressures driven by pension and healthcare increases

INCREASED RELIANCE ON ECONOMICALLY SENSITIVE SALES TAX

In May of 2010, the county approved a new sales tax distribution agreement for the years 2011 through 2020. Notably, the county no longer guarantees the municipalities and schools sales tax receipts at a level at least equal to the prior year's and will phase out its practice of distributing sales tax to underlying towns other than Syracuse. The new sharing agreement covers the 3% sales tax rate that does not require state approval and the 1% sales tax rate that must be approved by the state legislature every two years. The new agreement allocates the majority of the 3% sales tax revenue to the county and as long as the additional 1% sales tax rate is approved by the state legislature, the City of Syracuse will maintain the majority of this portion of the sales tax receipts. The disbursements to underlying villages and towns will be completely phased out in 2013. School districts will continue to receive a small portion of the total sales tax.

The additional county sales tax rate requires biannual approval from the state legislature which the legislature has historically provided to other counties. In the event that the 1% sales tax were not extended, the agreement stipulates that the county must share between 20-30% of its existing 3% sales tax (not subject to biannual renewal).

Following the implementation of the new agreement, the county lowered its property tax rate, which subsequently decreased the levy. The county now relies more heavily on economically sensitive sales tax receipts. Assuming a modest 1% increase in sales tax revenues and the changes in revenue sharing, the county anticipates receiving additional sales tax revenue of $66 million in fiscal 2011, $16 million in fiscal 2012 and $11 million in fiscal 2013. Moody's anticipates that the county will be able to manage this increased vulnerability due to its history and commitment to maintaining reserves in line with its policy and ability to make mid-year expenditure adjustments.

RESERVES EXPECTED TO REMAIN ADEQUATE

Moody's expects the county to maintain a sound financial position and adequate reserve levels given a history of strong fiscal management as evidenced by the effective mitigation of a $32 million revenue shortfall in 2010. The county had a $4 million operating surplus in 2009 (year ended December 31st) and a $9.9 million surplus in 2010; another surplus is projected for fiscal 2011. The county has increased its exposure to the economical sensitive sales tax receipts (discussed below), however, and faces potential pressure related to increasing pension, potential state aid cuts and a sizeable funding gap created by the loss of the Federal Medicaid Assistance Percentage (FMAP) increase. Moody's anticipates that despite these challenges, county management will continue to adhere to its formal fund balance policy that unreserved General Fund balance will be maintained at 10% of General Fund revenues (net of sales tax pass through) at a minimum.

The General and Debt Service Funds ended fiscal 2010 with a $5.9 million surplus, net of a $4.4 million bond premium, above the replenishment of the $7.9 million General Fund reserve appropriation and a $4.5 million Debt Service Fund reserve appropriated in the original budget. The total General Fund and Debt Service Fund balance increased to $84.5 million, or 15% of net General Fund revenues, and the Unreserved General Fund ended with $76.7 million or 13.8%, satisfying the county's formal fund balance policy. Operating results were driven by additional sales tax revenue ($14.4 million) and federal stimulus funds, including FMAP funding performing better than budget, despite property tax collections ($-6.7 million) coming in under budget. The sales tax positive variance was driven by the reduced budget estimates ($515 million below 2008 actual collections and $1.4 million above 2009 actual collections). In addition, 257 funded positions were eliminated, including 100 layoffs and 38 retirements; two new fees ($2.1 million motor vehicle fee and $1.7 million E911 fee) were also added. The results also incorporate a $7.77 million increase to the pension contribution.

The fiscal 2011 budget declined by 2.4% and included a smaller appropriation of fund balance ($2.1 million). The budget also reflects the new sales tax agreement; the county reduced the property tax rate and levy as it now maintains a larger portion of sales tax revenue collected within the county. The budget included the reduction of 210 funded positions, largely reflecting the early retirement incentive from 2010; county officials project the program will produce savings of approximately $8.9 million. Despite having to offset the elimination of federal stimulus and increasing costs relating to employee pensions and healthcare, management anticipates the year will end with a modest $2.9 million surplus. The surplus partially reflects stronger-than-budgeted sales tax revenues (year-to-date). Fiscal 2012 may be challenging given that the state could impose new property tax limits and increased costs related to medicare spending.

DIVERSE LOCAL ECONOMY DEMONSTRATES EMERGENT GROWTH POTENTIAL

Moody's expects growth in the county's sizable $26.4 billion tax base will be modest over the near term given ongoing delays to the Carousel Mall expansion and the weak 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 which contribute to the stable employment base, reflected in the April 2011 unemployment rate of 7%, which is below both the state and national levels (7.7% and 8.7%, respectively). The county's socioeconomic indices, while satisfactory relative to New York upstate communities, remain below national medians for Aa-rated counties. The county's population is showing signs of stabilization and modest growth following declines throughout the 1990s; according to the 2010 census, the county's population has increased by 1.9%. 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 had been delayed due to litigation with the developer's construction lender Citigroup Inc. (senior unsecured rated A3/rating under review for possible downgrade). In December of 2010, the two parties resolved their dispute and work on the project resumed in April of 2011. The larger "DestiNY" project completion date is still unknown and may continue to be challenged given the weakened economy, 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 $41 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. In addition, Upstate Medical University opened a new $140 million children's hospital in the fall of 2009 and continues to move forward with its $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 broke ground in 2010 on its $90 million new six-story addition.

MANAGEABLE DEBT BURDEN WITH REDUCED LAKE BORROWING EXPECTED

Moody's believes the county's average direct debt burden at 1.1% 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 (48% of county debt) and the total average amortization of principal (65.7% 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 most school districts, the City of Syracuse, which includes debt issued for the city school district, and other towns, villages, and fire districts. The overall debt burden declines substantially to an average 2.3% when state-supported school construction debt is excluded. The county's $613.8 million six-year capital improvement plan is projected to be 75% bond funded, with 59% for water and sewer 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 $640 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 green technology versus the more costly gray technology. This may reduce remaining project costs, which when 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 primarily 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.

What could change the rating up:

-Improvement of reserve position

-Increased financial flexibility that provides additional cushion against economically sensitive revenues

What could change the rating down:

-Significant increase in the debt burden that limits financial flexibility

-Diminishment of reserve position

KEY STATISTICS

2010 Population: 467,026 (1.9% increase since 2000)

2011 Full Valuation: $26.4 billion

2011 Full Valuation Per Capita (as % of NY and US): $56,571 (96% and 75%)

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 (April 2011): 7% (7.7% for NY and 8.7% for US)

Direct Debt Burden: 1.1%

Overall Debt Burden: 4.7%

Adjusted Overall Debt Burden: 2.6%

Payout of Principal (10 years): 65.7%

2010 General Fund balance: $84.5 million (15% of General Fund revenues net of sales tax pass through)

2010 Unreserved, Undesignated General Fund balance: $61.0 million (10.9% of General Fund revenues net of sales tax pass through)

Post-sale Parity Debt Outstanding: $395 million ($269.1 million GO bonds, $126.6 million EFC loans)

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, public information and confidential and proprietary Moody's Investors Service information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of assigning a credit rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Jessica A. Lamendola
Analyst
Public Finance Group
Moody's Investors Service

Geordie Thompson
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

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

Moody's Investors Service
250 Greenwich Street
New York, NY 10007
USA

make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.