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Summary:

Buffalo, New York; General Obligation; School State Program

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Credit Profile		
US$27.808 mil gen imp serial bnds ser 2016A due 04/01/2028		
Long Term Rating	A+/Stable	New
US$24.895 mil GO rfdg bnds ser 2016B due 11/15/2023		
Long Term Rating	A+/Stable	New
Buffalo GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term and underlying rating to Buffalo, N.Y.'s series 2016A and B general obligation (GO) general improvement serial bonds. At the same time, Standard & Poor's affirmed its 'A+' rating on the city's GO bonds outstanding. The outlook is stable.

The proceeds from the sale of the series A bonds will be applied to fund capital improvements of the city. The series B bonds will be used to refund certain maturities of the city's 2004C, 2008B, 2009A, and 2009B bonds. The refunding is being undertaken for interest rate savings.

The city's faith and credit GO pledge secures the bonds, including the statutory authorization to levy ad valorem taxes on all real property within the city, subject to applicable statutory limitations.

Outstanding school bonds are further secured by the New York State Aid Intercept program, pursuant to Section 99-b of the state finance law.

The GO rating for the city reflects the following credit factors, specifically its:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 at 24% of operating expenditures, as well as limited capacity to reduce expenditures and limited capacity to raise revenues due to consistent and ongoing political resistance;
- Very strong liquidity, with total government available cash at 56.0% of total governmental fund expenditures and 6.0x governmental debt service, as well as access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 9.3% of expenditures, net direct

debt that is 29.9% of total governmental fund revenue, and significant medium-term debt plans, and a large pension and other postemployment benefit (OPEB) obligation with the lack of a plan to sufficiently address it, but rapid amortization, with 83.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Buffalo's economy adequate. The city, with an estimated population of 258,703, is in Erie County in the Buffalo-Cheektowaga-Niagara Falls MSA, which we consider to be broad and diverse. It also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 71.3% of the national level and a low per capita market value of $27,223 in 2016, 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 2.3% over the past year to $7.0 billion in 2016. The county unemployment rate was 6.1% in 2014.

Historically, Buffalo's economy was based in manufacturing. As with many U.S. cities with manufacturing-based economies, Buffalo has seen its population drop significantly over the past few decades, with about a 25% decline since 1990. However, in recent years, significant investments were made in the city from both the private sector and New York State that have diversified its economy, particularly in the medical and education sectors. Investment in the medical sector is largely in the Buffalo Niagara Medical Campus (BNMC). The 120-acre site is adjacent to downtown Buffalo and is already home to Buffalo General Hospital, the University at Buffalo's Clinical and Translational Research Center, the Roswell Park Cancer Institute, and the Hauptman-Woodward Medical Research Institute. The campus currently has 12,000 employees and is expected to grow to more than 17,000 by 2017. Current investments include the Kaleida Women and Children's Hospital ($250 million), the State University of New York (SUNY) Buffalo Medical School expansion ($375 million), and a Coventus medical office facility ($100 million). Furthermore, the state pledged $1 billion (the "Buffalo Billion") for the Buffalo Regional Innovation Cluster centers on the High-Tech Manufacturing Innovation Hub at River Bend, which broke ground in September 2014.

The city has also reported that SolarCity has invested $5 billion in a 1.2 million square-foot solar panel facility at River Bend, which would be the largest solar panel manufacturing facility in the Western Hemisphere and create 3,000 new jobs. IBM also plans to add 500 jobs to a state-owned computer technology information center. We believe that these facilities, in addition to the presence of 20 colleges and universities (including the largest public university in New York in the University at Buffalo) and numerous corporate headquarters (including those for two of the nation's 40 largest banks--M&T Bank and First Niagara Bank) add stability to the local economy. Based on our local government credit conditions forecast, economic indicators in the area should remain stable.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMAmethodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city's financial policies are guided by oversight provided by the Buffalo Fiscal Stability Authority (BFSA), which is currently in an advisory mode. The city uses conservative budget assumptions that have generally led to positive variances and are supported by historical trend analysis and forward financial projections. Performance is monitored throughout the year with the city council reviewing budget-to-actual performance quarterly and may amend throughout the year if needed. The city and school district are required to submit annually updated four-year financial forecasts to the BFSA for approval within adopted guidelines to mitigate identified out-year gaps. The city also budgets annually for capital improvements in addition to maintaining a comprehensive five-year capital improvement plan with identified projects, costs, and funding sources. The city council maintains a formal investment management policy and reviews holdings at least annually. Annually, the comptroller submits to the mayor a report showing the maximum amount of capital debt that the city may prudently incur in the next calendar year and each of the four following calendar years without impairing its financial stability. The city's reserve policy is to maintain an emergency stabilization fund at 30 days of general fund operating expenditures in committed fund balance based on the BFSA.

Weak budgetary performance

Buffalo's budgetary performance is weak, in our opinion. The city had operating deficits of 2.6% of expenditures in the general fund and 2.6% across all governmental funds in fiscal 2015.

Fiscal 2015 results show a positive result on a GAAP basis. While we continue to adjust revenues and expenditures for reoccurring transfers to and from enterprise funds and spent bond proceeds for capital projects, we have also adjusted out a $17.2 million in one-time revenues due to better-than-budgeted savings from labor negotiations. The city's fiscal 2015 adopted budget included provisions for labor settlements and appropriated $27.5 million of fund balance, mostly for recurring expenditures.

For fiscal 2016, the budget was adopted with a deficit of $15 million, consistent with the fiscal plan. The budget as of Dec. 31, 2015, reflects the use of $22.3 million of fund balance, of which $7.5 million is for prior-year encumbrances. At this point in the year, management reports revenues will be under by $14 million and expenditures should be under by $18 million. The revenue shortfall is largely due to lower sales tax revenues from deceased fuel prices. Net of the effect of the increased appropriation and conservative assumptions, the city expects about an $8 million-10 million use of reserves depending on sales tax figures for the remaining of the year.

The revised four-year financial plan was approved by the BFSA on June 22, 2015. It projects decreased deficits from the previous plan, including deficits of $15 million in fiscal 2016, $10 million in fiscal 2017, $4.5 million in fiscal 2018, and $500,000 in 2019. The Buffalo City School District financial plan continues to show deficits in excess of $5 million fiscal years 2017 to 2019 in increasing amounts.

Adequate budgetary flexibility

Buffalo's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 at 24% of operating expenditures, or $115.6 million. Weakening budgetary flexibility, in our view, is limited capacity both to reduce expenditures and raise revenues due to consistent and ongoing political resistance.

For fiscal 2015, the city is showing an increase in reserves due to the better-than-expected performance in settling labor negotiations. However, we expect fiscal 2016 drawdowns to continue in line with financial projections of about $10 million. Given the city's current reserves, we expect flexibility to remain very strong.

We have included the city's committed reserves for emergency stabilization, which represents a minimum of 30 days of the prior fiscal year's total general fund operating expenditures, as available. If during a fiscal year, the city has unanticipated extraordinary operating or capital needs and cannot be funded with current budget resources, the city may use this fund.

We believe that Buffalo's very strong fund balance is offset by its limited revenue-raising flexibility and a significant fixed-cost burden: It depends on state aid for a large share of its general fund revenue (56% in 2015), and as it is one of New York's Big Four cities with dependent school districts, we believe that its constitutional taxing margin (2% of the five-year average full valuation) is pressured relative to that of other cities for which the school districts have independent taxing power. Buffalo is currently at 76% of its constitutional taxing margin, which has benefited from its recent tax stabilization measures.

Very strong liquidity

In our opinion, Buffalo's liquidity is very strong, with total government available cash at 56.0% of total governmental fund expenditures and 6.0x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe Buffalo's strong access to external liquidity is supported by its regular debt issuances, including GO debt. We do not view the city's investments as aggressive, with the majority in mutual funds and fixed-income securities and further supported by oversight of the BFSA. We expect the city's liquidity profile to be maintained at the current level.

The city has settled number of labor contracts with only one small union outstanding, mitigating some concerns regarding future liquidity pressures.

Weak debt and contingent liability profile

In our view, Buffalo's debt and contingent liability profile is weak. Total governmental fund debt service is 9.3% of total governmental fund expenditures, and net direct debt is 29.9% of total governmental fund revenue. Weakening our view of the city's debt profile is its significant medium-term debt plans. Approximately 83.2% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city issues debt on behalf of the school district (a component unit of the city). Most of these bonds are issued through the State of New York's Municipal Bond Bank Agency or through the Erie County Industrial Development Agency. These bonds are secured by agreements pursuant to which state aid payable to the district is directly intercepted by the trustee to make timely debt service payments. We have reviewed the official statements for each, and there is no city commitment; the obligations are payable solely from the intercept of state aid.

We note the city has been proactive in reducing its debt burden in recent years. Based on its 2015 capital plan, the current budgeted amount of the outstanding capital projects as of June 30, 2014, totaled $366.1 million for both the city and the school district, of which $236 million has been expended and $56.4 million encumbered, leaving an available balance of $73.8 million. The available balance includes $26.6 million for city bond projects, $24 million for school district capital projects, and $23.2 million of grant proceeds.

In our opinion, a credit weakness is Buffalo's large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Buffalo's combined required pension and actual OPEB contributions totaled 17.3% of total governmental fund expenditures in 2015. Of that amount, 9.1% represented required contributions to pension obligations, and 8.1% represented OPEB payments. The city made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 97.9%.

The city participates in the NY State and Local Employees' Retirement System (ERS) and Police and Fire System

(PFRS). In addition, operating a school district, it participates in the state Teachers' Retirement System (TRS). As of March 31, 2015, the plan fiduciary net position to total pension liabilities were 97.9% and 99.0%, for the ERS and PFRS plans, respectively, the teachers' plan is over 100% funded. The city contributes 100% of its employer contribution to the state and, despite having the option to do so, has not elected to amortize certain 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 liability is $3.3 billion, which is unfunded. The state does not allow the pre-funding of OPEB obligations. In our opinion, the size of the carrying charge and liabilities represent a significant burden for the city and we believe Buffalo does not have a plan to address these liabilities, in part due to some restrictions at the state level.

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 view of Buffalo's very strong reserve position and the state-supported economic development underway in the city and the region. For these reasons we do not expect to change the rating during the two-year outlook horizon.

Upside scenario

Over time, if the city were to stabilize its performance, adopt long-range structurally balanced financial projections, and mitigate downside pressure associated with the financial operations of its school district, we may raise our rating.

Downside scenario

Significant deterioration in the city's reserve position to levels less than those we consider strong could lead to our lowering the rating, barring a concrete plan to re-balance operations given the city's limited revenue-raising flexibility. We recognize the city faces ongoing pressures from its school district and the planned drawdown of reserves.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: New York Local Governments

Ratings Detail (As Of March 30, 2016)		
Buffalo sch serial bnds		
Long Term Rating	A+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Buffalo GO State Credit Enhancement		
Long Term Rating	A+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Buffalo GO State Credit Enhancement (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Buffalo GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Buffalo GO		
Long Term Rating	A+/Stable	Affirmed
Buffalo SCHSTPR		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Buffalo GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Buffalo GO State Credit Enhancement		
Underlying Rating for Credit Program	A+/Stable	Affirmed
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Long Term Rating	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.