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Ratings

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Summary:
Oneida, New York; General Obligation

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Summary:

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Credit Profile		
US$8.0 mil pub imp (serial) bnds 2020 dtd 10/07/2020 due 10/01/2050		
Long Term Rating	AA-/Stable	New
Oneida GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to Oneida, N.Y.'s general obligation (GO) public improvement (serial) bonds, series 2020. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the city's existing GO debt. The outlook is stable.

The 2020 bonds, with a par amount of $8 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 construction of improvements to the Glenmore Dam.

Credit overview

While the scope of economic and financial challenges posed by COVID-19 remains unknown, possibly for an extended period, due to the tax base's historical stability and recent growth, coupled with strong management and very strong reserves, we think the city is currently well-positioned to navigate the possible effects of COVID-19 on its finances without severe credit deterioration. For a relatively small Upstate city, Oneida has been successful in attracting and retaining businesses which, in turn, has helped it increase its tax levy. However, the city's revenues, most notably state aid, could come under pressure because of the pandemic. Even though Oneida swiftly enacted a comprehensive list of expenditure savings and is seeing its sales tax receipts unaffected up to this point due to stronger internet sales, it still expects a minor deficit and draw on reserves in fiscal 2020. With uncertainty around state aid levels and the pace of the economic recovery in fiscal 2021, budgetary pressure may persist. In the longer term, the rating could benefit from ongoing economic development; however, elevated fixed-cost pressure, especially from the city's large share of pension and other postemployment benefit (OPEB) obligations, will offset any notable credit improvement.

In general, our rating outlook timeframe is up to two years. Due to the current uncertainty surrounding COVID-19, however, our view centers on more immediate budget effects during the next six-to-12 months. (For further information, see the article, titled "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect.) We do not expect to change the rating within the outlook period because we have accounted for revenue and expenditure uncertainty in the current climate, and our view of the city's budgetary flexibility and reserves. We expect that management will likely remain proactive and continue to develop strategic planning to ensure cost efficiency.

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

- Adequate economy, with projected per capita effective buying income (EBI) at 86.2% and market value per capita of $46,481, that benefits 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 operating results that we expect could improve in the near term relative to fiscal 2019, which closed with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.7% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 111.7% of total governmental fund revenue, as well as a large pension and OPEB obligation and the lack of a plan to sufficiently address it; and
- Strong institutional framework score.

Environmental, social, and governance factors

Our rating incorporates our view regarding the indirect risks posed by the health and safety response required by the COVID-19 pandemic that could lead to budgetary challenges in fiscal 2021, particularly with regard to possible revisions to state aid and grant funding. Absent the implications of COVID-19, we consider the city's social risks in line with those of the sector. We view its governance risks as generally in line with those of peers and environmental risks as in line with the sector standard.

Stable Outlook

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 similarly rated peers, we could lower the rating.

Upside scenario

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

Credit Opinion

Adequate economy

We consider Oneida's economy adequate. The city, with a population of 10,812, is a primarily residential community in Madison County, approximately 20 miles west of Utica and about 25 miles east of Syracuse. It is in the Syracuse

MSA, which we consider to be broad and diverse. The city has a projected per capita EBI of 86.2% of the national level and per capita market value of $46,481. Overall, market value grew by 7.5% over the past year to $502.6 million in 2020 in large part due to increased development and economic activity prior to the onset of the pandemic and recession.

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 Oneida Indian Nation land.

Notably, the county unemployment rate was 4.5% in 2019. Despite this very low figure, rapidly evolving economic conditions due to the pandemic have significantly affected the labor market. While the regional economy showed resilience in the past recession, high unemployment, particularly if it exceeds 10%, is a risk we are monitoring. Unemployment in the county peaked at 16.2% in April, and came down to 11.9% in July, broadly in line with the state median.

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 expanded 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.

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. Nor do we, however, expect it to deteriorate, given the continued growth.

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-to-five years of historical revenue and expenditure assumptions to guide the development of its annual budget. Officials incorporate changes related to contractual obligations and retirement costs, and build conservative revenue projections for property taxes, nonproperty taxes, and revenue from state sources. During each fiscal year, 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 makes up 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 slight deficit operating results in the general fund of negative 0.9% of expenditures, and deficit results across all governmental funds of negative 2.3% in fiscal 2019. Despite steady operating performance exhibited over several years, with most of the deficits reflecting capital investing, in our assessment, we take into account potential downside risks stemming from the COVID-19 pandemic and related recessionary pressures. We believe however, that general fund performance will remain in line with the budget, in large part due to the city's proactive budget monitoring and generally conservative budgeting practices exhibited over several years.

The fiscal 2019 audit shows a $120,370 deficit for the year, but management is comfortable with that performance because the fund balance still remains above the policy goal of 20%. The city's available fund balance (assigned and unassigned) is $2.8 million, or 21% of expenditures. This is down from a high of over $3.5 million, or 29.9%, in fiscal 2017. As mentioned above, the city has been addressing its infrastructure needs through increased budgetary spending.

The adopted general fund budget for fiscal 2020 totals $13.8 million, or 5.7% higher than in the previous year. According to management, the year-over-year increase to appropriations reflects one-time infrastructure maintenance and increased debt service and employee benefit expenditures. Notably, the city has been increasing its tax levy over several years, raising the property tax levy by 6% in 2020 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.

Indeed, based on midyear budgetary performance, the city expects a slight deficit at fiscal year-end, as revenue losses from the pandemic's stay-at-home orders have affected certain local receipts. Importantly, sales taxes have not taken as much of a hit as initially expected, as an increase in internet sales receipts offset reductions in general sales revenues. Moreover, property tax collections are on pace to be collected at similar amounts to years past. However, due to management's year-end projections for fiscal 2020, we believe fund balance could see a slight reduction in line with years past, but we anticipate fund balance should stay within policy targets. While the city is in the preliminary stage of developing its fiscal 2021 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. It remains committed to making the appropriate decisions to preserve its reserves in excess of 20%.

Very strong budgetary flexibility

Oneida's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 21% of operating expenditures, or $2.8 million.

The city intends to continue to include fund balance into the subsequent year's budget. It monitors revenue trends and adjusts operating expenditures, and intends to continue to do so for fiscal 2021 to maintain, at least, balanced operations. At current levels, the city would have to see a reserve reduction of $868,000 (or approximately 6.7% operating deficit) for reserves to drop to 15% of expenditures and for us to revise our assessment to a weaker position.

Very strong liquidity

In our opinion, Oneida's liquidity is very strong, with total government available cash at 23.7% of total governmental fund expenditures and 3.3x governmental debt service in 2019. 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 its 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 its 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 7.2% of total governmental fund expenditures, and net direct debt is 111.7% of total governmental fund revenue.

Following the current issuance, the city's total direct debt outstanding is $24.7 million, of which $1.6 million is GO bond anticipation notes (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, its 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 currently considered for debt, other than a major wastewater project. The $44 million project is based on a consent order with the state Department of Environmental Conservation and will likely be self-supported through user charges.

Pension and OPEB liabilities

- In our view, the city's large pension and OPEB obligation, without a plan in place we think will sufficiently address it, is a credit weakness.
- Oneida's combined required pension and actual OPEB contributions totaled a high 12.4% of total governmental fund expenditures in 2019. Of that amount, 5.8% represented required contributions to pension obligations, and 6.6% represented OPEB payments.
- Oneida's OPEB liability was equal to $47.9 million as of Dec. 31, 2019, and paid on a pay-as-you-go basis, which could create budgetary pressure from higher contributions resulting from claims volatility and increasing medical cost trends.
- New York State prohibits the accumulation of assets against the liability, increasing financial risks because Oneida cannot plan for higher contributions with amounts set aside in a dedicated fund.

The city participates in the following retirement plans:

- New York State Employees' Retirement System; 96.3% funded, with a proportional share of the net pension liability (NPL) equal to about $772,000.
- New York State & Local Police & Fire Retirement System; 95.1% funded, with the city's share of the NPL equal to $1.6 million.

We view the pension plans' actuarial assumptions, including an assumed rate of return of 7.0%, as generally reasonable, but the rate could lead to contribution volatility because it exceeds our view of a conservative rate of return of 6%. The city funds 100% of its actuarially determined contribution, and the pension system's actual contributions exceeded our view of minimum as well as static funding progress for both pension plans. However, the plans' aggregate cost method essentially creates an open amortization policy using a level-percent pay basis assuming a 3.8% payroll growth rate, which we generally view negatively because the plans will never reach full funding and costs will increase annually. However, the plans' high funded ratios largely mitigate the risks of the city's costs rising significantly.

While the city has not been deferring pension costs over the past couple of years, but may take advantage of the Employer Contribution Stabilization Program in fiscal 2021 to offset potential revenue losses, in particular from state aid.

Strong institutional framework

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

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of September 24, 2020)		
Oneida pub imp (serial) bnds		
Long Term Rating	AA-/Stable	Affirmed
Oneida GO (MAC)		
Unenhanced Rating	AA-(SPUR)/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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.