



2013 FISCAL PROFILE

CITY OF UTICA

Overview

The City of Utica is located 55 miles east of Syracuse on the Erie Canal in Oneida County. Utica was a geographic center for textile and machine manufacturing in the 1800s and early 1900s. After many manufacturing industries left the area, Utica experienced a dramatic drop in population, coupled with increases in unemployment, poverty and property vacancy.

Utica has been in fiscal decline in recent years, relying on non-recurring revenues to fill budget gaps. Utica has drawn down its fund balance and its Water Trust Fund consistently over the past four years. In fiscal year 2011-12, the City came close to depleting both funds to cover budget shortfalls.

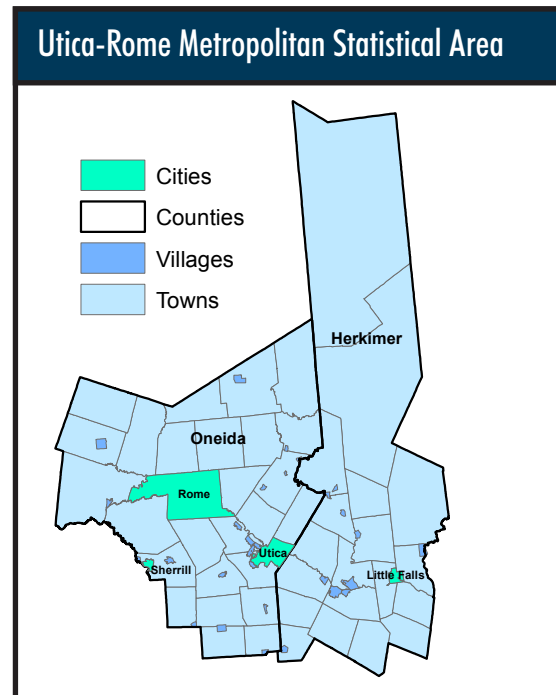
Moody's Investors Service and Fitch Ratings recently downgraded the City's long-term rating based on the City's deteriorating fiscal condition, including ongoing structural budget imbalance, use of fund balance and liquidity issues.

- Utica's median income of \$31,381 in 2010 was below the median for all New York cities of \$37,607 and the State median of \$55,603. In addition, 24.3 percent of its families live in poverty, compared with 10.8 percent statewide.
- The City's unemployment rate of 9.6 percent in October 2012 was higher than the statewide average of 8.3 percent and higher than that of the 8.0 percent rate for the greater Utica-Rome metropolitan area.
- Utica's expenditures grew at an average annual rate of 2.7 percent from 2001 to 2011, while revenues grew by 2.5 percent.
- The City had outstanding debt of \$59.7 million in 2011, and had exhausted 55.4 percent of its Constitutional Debt Limit, compared to the 22 percent of debt limit exhausted by the median city in the State.
- Utica has spent down nearly all of its fund balance since 2007. With these resources no longer available, the City's ability to address budget gaps or unforeseen expenses is severely limited.

Population and Economic Factors

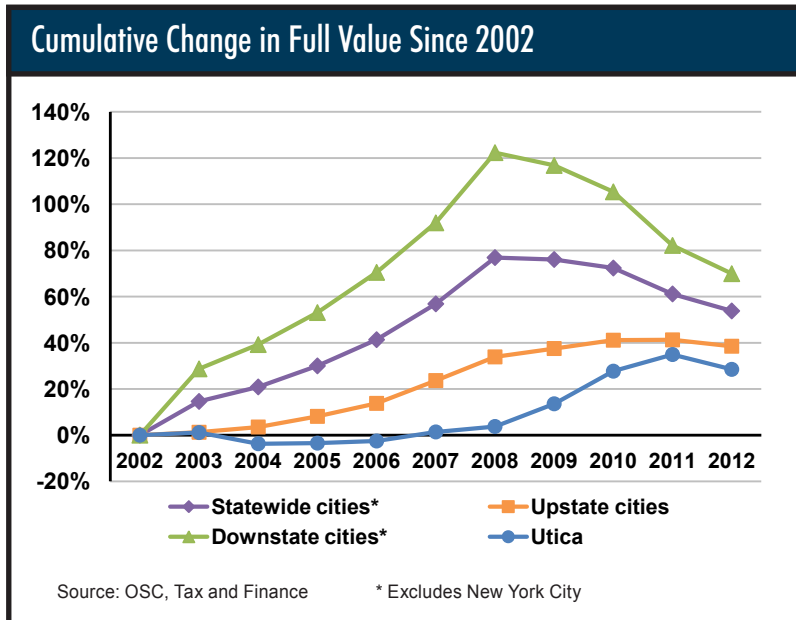
With the exodus of the manufacturing industry that had sustained much of Utica's economy, the City's population has declined dramatically since 1960. In the years between 1930 and 1960, Utica's population held constant near 100,000. However, between 1960 and 2000, population levels fell at an average rate of about 12 percent per decade. In 2010, Utica's population of 62,235 was 39 percent lower than it was in 1950.

Utica also faces significant challenges due to the socioeconomic profile of its population. The City's unemployment rate was 9.6 percent in October 2012, which was higher than the statewide average of 8.3 percent, and also higher than the 8.0 percent rate for the greater Utica-Rome metropolitan area. In addition, Utica's median household income of \$31,381 is lower than that of the median for all New York cities (\$37,607) and the statewide average (\$55,603). Families residing in the City also tend to be poorer than in other cities, with 24.3 percent of the City's families living in poverty in 2010, compared to the 16.6 percent average for all cities and the statewide average of 10.8 percent.¹



Tax Base

Despite significant growth in most of the State's housing market during the middle part of the decade, Utica's property values remained relatively flat until 2008. From 2008 through 2011, property values increased at an average rate of 9.1 percent annually, and then declined by nearly 5 percent between 2011 and 2012. In contrast, values statewide, and especially in downstate cities, grew dramatically between 2002 and 2008, averaging nearly 10 percent growth on an average annual basis, and then declined.



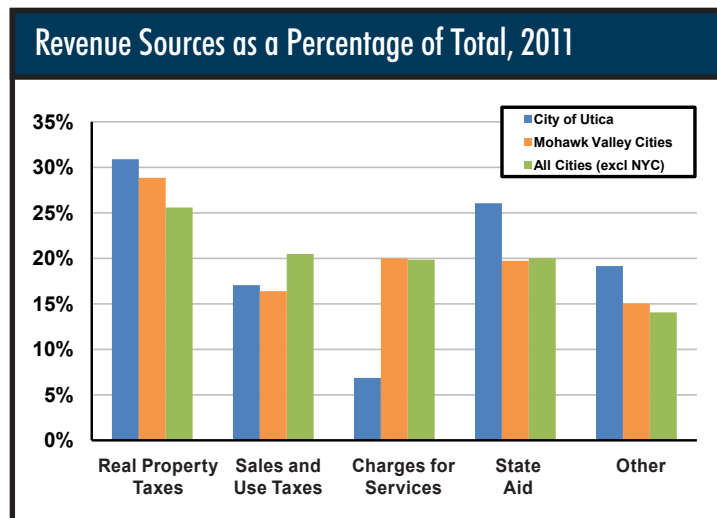
¹ Throughout this report, references to all cities, downstate cities, or median city exclude New York City.

Utica has a higher percentage of vacant housing units than most other cities across the State. High vacancy rates ultimately limit the amount of property tax the City is able to collect. Since Utica also has a property tax exemption rate of nearly 37 percent (compared to 32 percent for the median city), the City is facing a difficult property tax situation, with relatively few revenue-generating options. As of 2012, Utica had exhausted 58 percent of its Constitutional Tax Limit (CTL), which is higher than the median for other cities in the State (44 percent).

Housing Statistics		
	Utica	Median City
Home Ownership	47.5%	49.5%
Median Home Value	\$85,300	\$96,000
Vacant Units	11.6%	9.2%
Exempt from Tax	36.9%	32.0%

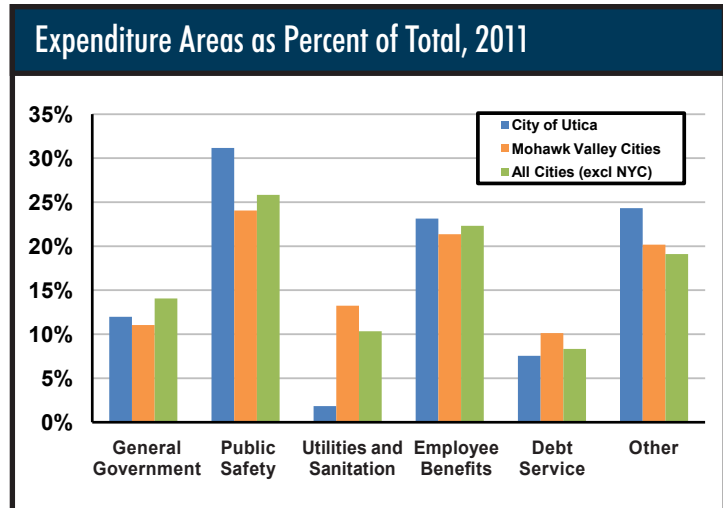
Revenues and Expenditures

Utica's total revenues grew at an average rate of 2.5 percent between 2001 and 2011, compared to an average growth rate of 3.4 percent for all cities in the State. The City is particularly reliant on real property taxes and State aid, which represent 30.9 and 26.1 percent of its revenue pool, respectively. State aid – a source largely beyond the City's control – grew an average of 2.7 percent per year from 2001 to 2011. This increase was mostly due to increases in the State's Aid and Incentives for Municipalities (AIM) revenue-sharing program, which grew 65.3 percent between 2005 and 2009, but has declined by 5.9 percent between 2009 and 2012. The City is budgeted to receive \$259 per capita through this program in 2013, less than the average of \$290 per capita for all cities.



The City also relies more heavily on federal aid – another source beyond its control – than other cities in the Mohawk Valley and in the State. In 2011, federal aid – primarily attributable to Community Development Block Grants and the “Section 8” rental assistance program – made up 14.6 percent of total revenues. Sales taxes, a volatile source for which the City has exercised its right to pre-empt a portion of County sales tax (i.e., impose its own sales tax), made up 17.0 percent of the City's revenues in 2011. However, growth has been modest, increasing only by 0.8 percent annually, on average, since 2006.

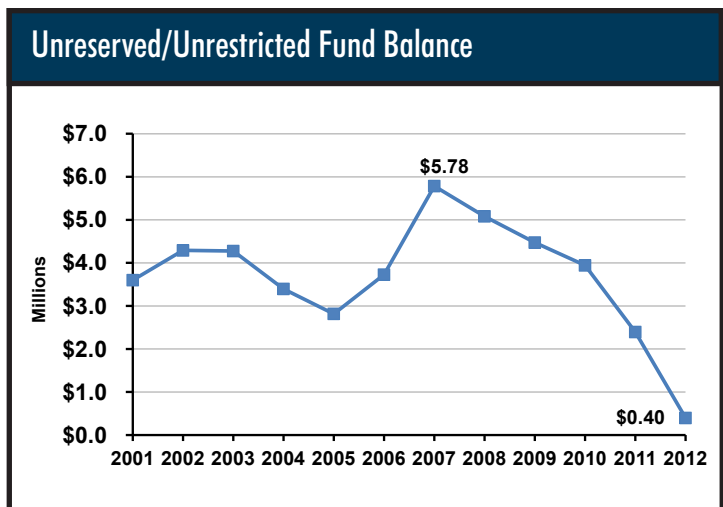
Expenditures grew at an average annual rate of 2.7 percent between 2001 and 2011, compared to the annual average growth of 3.4 percent for all cities. Utica spends more for public safety than the average city, at 31.2 percent of total expenditures compared to 25.9 percent. Public safety expenditures grew by 4.4 percent on an average annual basis between 2001 and 2011. Employee benefits expenditures were slightly higher than averages for the Mohawk Valley and for all New York cities, making up 23.1 percent of all spending in 2011, and have grown rapidly over the past decade, increasing nearly 10 percent on an average annual basis since 2001.



Current and Projected Budget Situation

In March 2012, Utica adopted a budget that raised the tax levy by 10 percent and cut 24 public safety positions.

Utica's new mayor has vowed to work with the City Council and the Office of the State Comptroller (OSC) to ensure that the City remains in control of its own financial future. OSC conducted a budget review for the 2012-13 budget which found that due to ongoing fiscal challenges, the City has not set aside any funds for a Contingency and Tax Stabilization Reserve as required by the City Charter, leaving this reserve underfunded by over \$2 million.



Another persistent problem for the City has been its reliance on the use of one-time reserves and fund balance to help remedy budget gaps. Between 2007 and 2012, the City used \$5.4 million of its fund balance to fill budget gaps, and has depleted most available balances, postponing difficult decisions to the future.

In 1996, the City sold its water assets to a regional public water authority. Proceeds from the sale and any installments paid by the authority to the City were required to be placed in a capital improvement trust fund (Water Trust). The 2012 budget review stated that:

In 2005-06, the Water Trust had a reported balance of nearly \$9 million; however, the City has been spending down this balance since then. During the last three completed years and the current fiscal year to date, the City has made annual transfers to the general fund totaling over \$6.7 million. The Water Trust is projected to have a balance of \$1.3 million as of March 31, 2012. The proposed budget includes a \$661,452 transfer from the Water Trust, further depleting these funds.

With these gap-filling sources unavailable in the future, the City may experience critical cash-flow problems over the next few years. Municipalities that experience such cash-flow issues often resort to issuance of short-term debt. Given the City's weakened credit rating, these issuances will become increasingly expensive.

Bond Ratings and Debt

Moody's Investors Service downgraded the City's long-term rating to Baa1 from A3 in May 2012, with a negative outlook after a previous downgrade in February 2012. Moody's cited structural imbalance, ongoing draws on fund balance, weakened liquidity, weak socioeconomic indices and the challenges the City continues to face to restore balanced operations and replenish reserve levels. Moody's also noted deterioration of Utica's fiscal condition since 2009 due to the appropriation of reserves and inaccurate budgeting of revenues, and estimates the structural balance gap from 2009 to 2011 at more than \$10 million. Fitch Ratings, which also downgraded Utica, expressed concern about the necessity of short-term borrowing as the recent lack of reserve funds has created periodic cash-flow issues.

The City had long-term outstanding debt of \$59.7 million at the end of 2011, and had exhausted 55.4 percent of its Constitutional Debt Limit by 2011. This is significantly higher than the median for all cities of 22 percent. Although its outstanding debt of \$959 per capita is below the \$1,300 median for all cities, its debt burden is actually quite high in relation to the full value of real property in the City (4.0 percent, as compared to the median of 2.8 percent). Utica's debt service costs in 2012 were 8.4 percent of revenues, the same as the median for the State.

Utica vs. All Cities and New York State

Population 2010: 62,235	City of Utica	All Cities (excluding NYC)		New York State
		Median	Aggregate	
Demographic Indicators				
Percentage Change in Population, 1950-2010	-39%	-20%	-25%	31%
Median Household Income, 2010	\$31,381	\$37,607	N/A	\$55,603
Percentage of Families in Poverty, 2010	24.3%	13.7%	16.6%	10.8%
Unemployment Rate, October 2012	9.6%	N/A	N/A	8.3%
Property Value Indicators				
Median Home Value, 2010	\$85,300	\$96,000	N/A	\$303,900
Percentage Change in Full Value, 2007-2012	26.7%	11.6%	-1.3%	5.4%
Owner-Occupied Housing Units, 2010	47.5%	49.5%	45.4%	53.3%
Property Vacancy Rate, 2010	11.6%	9.2%	10.4%	9.7%
Percentage of Property Value That is Tax Exempt, 2010	36.9%	32.0%	34.9%	25.6%
Revenue and Tax Indicators				
State Revenue Sharing Aid (AIM) per Capita, SFY 2012-13	\$258.87	\$146.80	\$289.50	N/A
Tax Limit Exhausted, 2012	58%	44%	N/A	N/A
GF Unreserved Fund Balance as a Percentage of Revenue, 2007	10.7%	13.1%	15.7%	N/A
GF Unreserved Fund Balance as a Percentage of Revenue, 2011	3.8%	10.1%	13.2%	N/A

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2006-2010 and 2010 Census; Department of Taxation and Finance; New York State Labor Department; Office of the State Comptroller.

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