Overview

Watertown, the seat of Jefferson County, is a small city of 27,023 residents. In recent decades, the City’s population has fluctuated between 26,700 and 29,500. The Fort Drum military base, located a few miles northeast of the City, has helped shore up Watertown’s population and economic base. Over 19,000 soldiers are assigned to Fort Drum. In addition, approximately 4,500 civilians work on or near the base.

The City enjoys a stable property tax base and its median home value is higher than that of the median city in the State. The home ownership rate of 43 percent is somewhat lower than that of the median city, due in part to high demand for rental units from families associated with Fort Drum. The unemployment rate stood at 9.2 percent in 2012—slightly higher than the rate for the State as a whole. In addition to traditional revenue sources, Watertown receives revenues from its hydroelectric plant and for providing water treatment and sewer services to surrounding communities, including Fort Drum.

The City has paid down a significant amount of debt. As a result, its debt service costs in 2011 accounted for 7.0 percent of expenditures, down from 20 percent in 2001. This positive trend, along with the City’s substantial fund balance and a large tax margin, leave Watertown well positioned to cope with current and future fiscal challenges.

However, the City’s financial plan calls for drawing down fund balances in addition to implementing modest increases in property taxes, utility rates and water/sewer rates to close projected budget gaps over the next several years. If implemented, these drawdowns could limit the City’s ability to respond to future economic challenges.

- Watertown’s median household income is $37,514, below both the statewide figure ($56,951) and the median for all cities ($38,699).
- The percentage of the City’s families living in poverty is 18.5 percent—higher than the median of 15.1 percent for all New York cities.
- In 2011, sales and use taxes accounted for 30.4 percent of Watertown’s total revenues, compared to 20.5 percent for cities statewide. Real property taxes accounted for only 13.1 percent of revenues, lower than the 25.6 percent share for cities statewide.
- The City has exhausted 6 percent of its Constitutional Tax Limit, leaving it with an available tax margin of $18.5 million in 2012.
- Watertown is in close proximity to the Fort Drum military base and has benefited from the economic impact of that facility. The base’s estimated direct economic impact on the region was $1.4 billion in 2011-12.
- A long history of healthy general fund balances has helped the City earn a high credit rating that has kept its borrowing costs low.
Population and Economic Factors

The City of Watertown, population 27,023, is located in Jefferson County. Like many upstate cities, it experienced substantial population growth during the first half of the twentieth century, followed by a decline. Between 1900 and 1950, Watertown’s population grew by 58 percent, from 21,696 to 34,350. By 1980, the population had dropped to 27,861. Since then, the City’s population has fluctuated between 26,700 and 29,500.

The Fort Drum military base, located a few miles northeast of the City, has helped stabilize the City’s population and strengthen the local economy. The base has over 19,000 active military personnel and as many family members. In addition, over 4,500 civilians work on or near the base.\(^1\) Approximately one-third of the soldiers and their families live in the surrounding community rather than on the base.\(^2\) Analysis conducted by the Fort Drum Plans, Analysis, and Integration Office estimates the total direct economic impact of Fort Drum on the surrounding communities at $1.4 billion for the October 2011 - September 2012 period, down slightly from the previous year. Salary and benefits earned by soldiers and civilian employees assigned to the base account for $1.2 billion of the direct impact. The base’s impact fluctuates according to the staffing levels and activities at the base. No significant changes in base population are projected through 2019.\(^3\)

The percentage of families living in poverty in Watertown was 18.5 percent in 2011—7.5 percentage points higher than the statewide rate of 11.0 percent, and 3.4 percentage points higher than the median of 15.1 percent for New York cities.\(^4\) The median household income in 2011 was $37,514, well below the statewide figure of $56,951, but only slightly below the median of $38,699 for New York State cities.

In 2012, Watertown’s unemployment rate stood at 9.2 percent, slightly above the statewide rate of 8.5 percent. Since 2000, Watertown’s unemployment rate has generally been slightly higher than the rate for the State as a whole.
Tax Base

Watertown’s property values remained relatively stagnant during the early part of the decade, and then increased sharply, by 74 percent from 2005 to 2010. The growth in property values in Watertown was markedly higher than that of other cities located in upstate New York. Since 2010, the City’s property values have remained fairly steady, which has also been the case for upstate cities in general.

Watertown’s median home value of $116,700 is 17.1 percent higher than the median value of $99,700 for all cities. The City’s rate of home ownership (43.0 percent) is below the median for cities in New York State (50.5 percent) and its vacancy rate (8.7 percent) is below the city median (10.4 percent) as well.

Just under one-third of the City’s property is tax exempt (30.9 percent), lower than the rate for the median city (32.3 percent), but higher than the statewide figure of 26.2 percent.

As of 2012, Watertown had exhausted only 6.5 percent of its Constitutional Tax Limit (CTL)—the lowest percentage by far of any city in the State. The statewide city median is 43.6 percent. Consequently, Watertown has a sizable tax margin of $18.5 million, which provides the City with flexibility to address unforeseen expenses and to make ongoing infrastructure investments.

Cumulative Change in Full Value of Real Property Since 2002

Note: Upstate includes all counties except Dutchess, Nassau, Putnam, Orange, Rockland, Sullivan, Suffolk, Westchester, Ulster, and the five boroughs of New York City. New York City is also excluded from the "All Cities" figures.
Sources: OSC, NYS Department of Taxation and Finance

Housing Statistics, 2011

<table>
<thead>
<tr>
<th></th>
<th>Watertown</th>
<th>Median City</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home Ownership</td>
<td>43.0%</td>
<td>50.5%</td>
</tr>
<tr>
<td>Median Home Value</td>
<td>$116,700</td>
<td>$99,700</td>
</tr>
<tr>
<td>Vacant Units</td>
<td>8.7%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Exempt from Tax</td>
<td>30.9%</td>
<td>32.3%</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau, NYS Department of Taxation and Finance
Revenues and Expenditures

Overall, Watertown’s revenues grew at an average annual rate of 4.0 percent between 2001 and 2011, compared to an average growth rate of 3.4 percent for all cities in the State. Watertown’s revenues from real property taxes and federal aid contracted modestly between 2001 and 2011, while sales and use tax revenues grew at an average annual growth rate of 5.2 percent.

Compared to other New York cities, Watertown is less reliant on property taxes and State and federal aid, but more reliant on sales taxes. In 2011, real property taxes accounted for only 13.1 percent of revenues, significantly less than the 25.6 percent for all cities, and down from 21.4 percent in 2001. State aid accounted for 11.4 percent of revenues in 2011 compared to 20.0 percent for cities statewide. On the other hand, sales and use taxes accounted for 30.4 percent of Watertown’s revenues in 2011, compared to 20.5 percent for all cities. The City’s sales tax sharing agreement with Jefferson County allocates 24.0 percent of the revenue generated by the 3.75 percent county sales tax to the City.

The Salmon Run Mall, located in the Town of Watertown, attracts Canadian shoppers who also patronize City businesses. Beginning in June 2012, Canada increased duty-free shopping limits, providing an additional incentive for Canadians to hunt for bargains south of the border. According to Statistics Canada, New York State is the top destination for international overnight travel by Canadians travelling to the U.S. In the third quarter of 2012, Canadians made 1.7 million overnight visits to New York State, up 16.6 percent from the same period in 2011. They spent an estimated $607 million (in Canadian dollars) in the State. Watertown sales receipts are also bolstered by families and contractors from Fort Drum.
Watertown’s revenues include income from a hydroelectric project located on the Black River. The City has an agreement with National Grid requiring the company to purchase the excess power produced by the project. The City also receives revenues from providing water and sewage treatment services to Fort Drum and outlying communities through an agreement with the Development Authority of the North Country.

Like most other cities, towns and villages in New York, Watertown receives funding from the State through the Aid and Incentives for Municipalities (AIM) program. AIM is the primary source of State aid for cities. In recent years, AIM funding has declined or been stagnant as the State has worked to address budget gaps during the recent recession. Between 2008-09 and 2012-13, AIM payments to cities (excluding New York City) decreased by $43.7 million. Watertown’s AIM funding dropped from $5.1 million to $4.7 million during that period. The City is slated to receive $4.7 million again in 2013-14. That equals $174 per capita, which is above the statewide median for cities of $147 in AIM funding per capita. In the 2012-13 Enacted State Budget, the City (along with 12 other cities with a different fiscal year than the State) received a spin-up of AIM, resulting in a one-time revenue boost of $3.1 million.

Watertown’s expenditures grew at 3.4 percent annually during this period, the same rate as that for cities statewide. The City spent less on public safety (police and fire protection) and general government operations than other cities, but considerably more for employee benefits. For cities statewide, more than 22 percent of total spending was for employee benefits in 2011, up from 13 percent in 2001. In Watertown this trend is even more pronounced. By 2011, 35 percent of spending was driven by this purpose compared to 19 percent in 2001.

Since 2001, Watertown has been paying down its debt and, as a result, debt service costs have declined as well, in both nominal terms and as a share of total expenditures. By 2011, debt service accounted for 7.2 percent of expenditures, down from 19.6 percent in 2001. Over that period, expenditures for debt service decreased 6.5 percent on an average annual basis.

**Current Budget Condition**

In recent years, Watertown has benefited from healthy fund balances. According to its most recent annual financial report filed with OSC, the City’s General Fund had a balance of $8.9 million in 2012, or 15.9 percent of expenditures.

The City includes multiyear financial planning as part of its budget process. In its five-year plan for fiscal years 2012-13 through 2016-17, the City forecasts recurring deficits in the combined three major funds (general, water and sewer) of between $1.9 million and $2.3 million per year. The plan calls for closing the deficits through modest increases in property taxes, water and sewer rates, and appropriation of fund balances. Between 2012-13 and 2016-17, the City projects that its unrestricted general fund balance will fall by 70 percent to $2.6 million, or 4 percent of projected revenues. Such a depletion of the fund balance could limit the City’s flexibility in dealing with unforeseen contingencies and future economic downturns.
In the longer term, Watertown’s fiscal condition could suffer if the number of soldiers assigned to Fort Drum dropped, resulting in a contraction of economic activity in the region. However, the population at the base is not projected to drop during the next few years. The City’s proximity to Canada presents both benefits as well as risks depending on the relative strength of the Canadian and American dollars. When the American dollar is relatively weak, Canadians come to New York where they enjoy greater purchasing power. When the American dollar is strong, however, Canadians are less likely to shop in the U.S. and North Country residents may head north to do some of their shopping. As noted above, a recent increase in duty-free limits has encouraged cross-border shopping by Canadians and data from Statistics Canada confirms an increase in overnight visits by Canadians to New York State.

Bond Ratings and Debt

In June 2011, Moody’s Investors Service upgraded the City of Watertown’s general obligation debt one notch to Aa3 from A1. Moody’s cited the City’s strong reserves, manageable debt level, good fiscal management and increasing role as a regional economic center as factors justifying the upgrade.12

The City had outstanding debt of $28.2 million at the end of 2011 and had exhausted 19 percent of its Constitutional Debt Limit, compared to a median of 24 percent for all cities. Watertown’s total long-term outstanding debt burden per capita is $1,045 and debt as a percentage of full value is 2.7 percent, compared with the median city’s outstanding debt of $1,369 per capita or 3.0 percent of full value.
## Watertown vs. All Cities and New York State

### Population 2010: 27,023

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<thead>
<tr>
<th>Demographic Indicators</th>
<th>City of Watertown</th>
<th>All Cities (excluding NYC)</th>
<th>New York State</th>
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</thead>
<tbody>
<tr>
<td>Percentage Change in Population, 1950-2010</td>
<td>-21%</td>
<td>-20%</td>
<td>-25%</td>
</tr>
<tr>
<td>Median Household Income, 2011</td>
<td>$37,514</td>
<td>$38,699</td>
<td>N/A</td>
</tr>
<tr>
<td>Percentage of Families in Poverty, 2011</td>
<td>18.5%</td>
<td>15.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td>Unemployment Rate, 2012</td>
<td>9.2%</td>
<td>9.2%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Property Value Indicators

<table>
<thead>
<tr>
<th>Property Value Indicators</th>
<th>Median Home Value, 2011</th>
<th>Percentage Change in Full Value, 2007-2012</th>
<th>Owner-Occupied Housing Units, 2011</th>
<th>Property Vacancy Rate, 2011</th>
<th>Percentage of Property Value That is Tax Exempt, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median Home Value, 2011</td>
<td>$116,700</td>
<td>27.5%</td>
<td>43.0%</td>
<td>8.7%</td>
<td>30.9%</td>
</tr>
<tr>
<td>Percentage Change in Full Value, 2007-2012</td>
<td>11.6%</td>
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<tr>
<td>Owner-Occupied Housing Units, 2011</td>
<td>50.5%</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Property Vacancy Rate, 2011</td>
<td>10.4%</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Percentage of Property Value That is Tax Exempt, 2011</td>
<td>32.3%</td>
<td></td>
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</tr>
</tbody>
</table>

### Revenue and Tax Indicators

<table>
<thead>
<tr>
<th>Revenue and Tax Indicators</th>
<th>State Revenue Sharing Aid (AIM) per Capita, SFY 2012-13</th>
<th>Tax Limit Exhausted, 2012</th>
<th>GF Unreserved Fund Balance as a Percentage of Revenue, 2007</th>
<th>GF Unreserved Fund Balance as a Percentage of Revenue, 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Revenue Sharing Aid (AIM) per Capita, SFY 2012-13</td>
<td>$174.04</td>
<td>6.5%</td>
<td>31.6%</td>
<td>30.9%</td>
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<tr>
<td>Tax Limit Exhausted, 2012</td>
<td>$146.80</td>
<td>43.6%</td>
<td>13.4%</td>
<td>13.3%</td>
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<tr>
<td>GF Unreserved Fund Balance as a Percentage of Revenue, 2007</td>
<td>$289.50</td>
<td>N/A</td>
<td>15.7%</td>
<td>12.9%</td>
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<td>GF Unreserved Fund Balance as a Percentage of Revenue, 2011</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: U.S. Census Bureau, American Community Survey, 5-year estimates, 2007-2011 and 2010 Census; Department of Taxation and Finance; New York State Labor Department; Office of the State Comptroller.

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4. Throughout this report, references to all cities, downstate cities, or the median city exclude New York City.
5. The Constitutional Tax Limit caps the total amount of property tax a city can levy at 2 percent of the five-year average of its full value with certain exclusions.
10. The “spin-up” consisted of accelerating the AIM payment schedule such that payments made in State fiscal year 2013-14 fell within the cities’ 2012-13 fiscal year.
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