



New Issue: MOODY'S DOWNGRADES TO Baa1 FROM A1 THE TOWN OF COLONIE'S (NY) G.O. RATING IN CONJUNCTION WITH SALE OF \$4.5 MILLION REFUNDING SERIAL BONDS OF 2010; REMOVES NEGATIVE OUTLOOK

Global Credit Research - 01 Jun 2010

Baa1 RATING APPLIES TO APPROXIMATELY \$76.7 MILLION OUTSTANDING G.O. DEBT, INCLUDING CURRENT ISSUE

Municipality
NY

Moody's Rating

ISSUE	RATING
Refunding Serial Bonds - 2010	Baa1
Sale Amount	\$4,500,000
Expected Sale Date	06/10/10
Rating Description	General Obligation

Opinion

NEW YORK, Jun 1, 2010 -- Moody's Investors Service has assigned a Baa1 rating to the Town of Colonie's (NY), \$4.5 million Refunding Serial Bonds of 2010. Concurrently, Moody's has downgraded the rating to Baa1 from A1 and removed the negative outlook on the town's \$76.7 million of outstanding parity debt. The bonds are secured by the town's general obligation unlimited property tax pledge and proceeds are expected to refund the town's outstanding Series 2001 bonds for a projected net present value savings of 3% of refunded principal or approximately \$150,000, without extension of the maturity structure. The downgrade to Baa1 reflects the town's significantly deteriorated financial position evidenced by an accumulated Combined Operating (General, Highway, and Town Outside Village) Fund deficit of -\$8.7 million as of fiscal 2009 (unaudited; year ended December 31st). The rating also factors the town's sizable and well located tax base with above average income levels and below average debt burden with moderate future debt plans. Removal of the negative outlook reflects our expectation that the town's management team may build on two consecutive years of favorable operational and budgetary results; however, we believe that the town will remain challenged over the medium term to reduce the accumulated deficit fund balance given a significant reliance on economically-sensitive sales and mortgage tax revenue sources (36.6% of 2009 operating revenues).

DETERIORATED FINANCIAL POSITION MARKED BY NEGATIVE FUND BALANCE IN COMBINED OPERATING FUNDS

Despite steps to regain fiscal stability in 2008 and 2009, the town remains challenged to restore structural balance and eliminate its accumulated deficit in the medium term given significant reliance on economically-sensitive revenue sources (sales and mortgage tax comprised 36.6% of operating revenues in fiscal 2009). Moody's analysis of the town's financial position includes the General, Highway, and Town Outside Village Funds, whose combined accumulated deficit stood at -\$8.7 million (-14.7% of Combined Operating Fund revenues) at fiscal 2009 year-end, an improvement over the -\$11.8 million (-21.1% of revenues) in 2007. The town's severely limited financial flexibility results from six consecutive annual operating fund deficits (2002 to 2007), caused by inaccurate budgeting of employee benefits, budgeting of land sale proceeds which did not materialize, and annual appropriation of fund balance without replenishment. In addition, in 2006, 2007, and 2008 the town's previous management incorrectly recognized sales tax revenues in the General Fund, when such revenues should have been applied to the Highway Fund per NY State law, resulting in an accumulated estimated interfund payable of \$13.4 million to the Highway Fund from the General Fund at the end of fiscal 2009 (discussed below).

In early 2008, a new management team began addressing the town's fiscal issues. The new team inherited the inaccurate 2008 budget and effectively cut expenditures by \$1.6 million and sold property for \$2.7 million to offset excess employee benefits (\$1.4 million) and debt service costs (\$272,000), as well as underperforming mortgage taxes (\$500,000) and emergency medical services and golf course fees (\$600,000). These actions generated a combined operating surplus of \$2.6 million, which improved the combined negative fund balance to -\$9.2 million in 2008 from -\$11.8 million in 2007.

Unaudited results for 2009 demonstrate a second consecutive, albeit more modest, combined operating surplus of \$614,000, driven by a \$5.2 million one-time deficit reduction tax levy and a 2.9% property tax levy increase. Recessionary economic conditions stymied the town's progress towards generating a more ample operating surplus, as the town's sales tax (aggressively budgeted to increase by 8.6%) and mortgage tax revenue sources demonstrated unfavorable variances of \$2.1 million and \$537,000, respectively. In addition, the Landfill Fund experienced an operating surplus of \$866,000, but maintains a cumulative net asset -\$7.7 million at 2009 year-end, and improvement over the -\$8.1 million in 2007. The town annually transfers cash out to support General Fund operations rather than accruing for future post closure costs, the primary reason for the negative net assets given positive annual operating performance.

The fiscal 2010 budget decreased by \$5.7 million (9.8% budget to budget decline), as the town's management reduced headcount through attrition and implemented other expenditure saving measures, but more notably declined given the absence of the one-time deficit reduction levy that management conservatively budgeted as both a revenue and an expenditure in 2009. Sales tax is budgeted to increase by 7.6% over fiscal 2009 actual receipts, presenting further vulnerability should the economy fail to rebound in 2010. While state aid is budgeted to increase by a modest 1.2%, the town remains vulnerable to cuts in state operating aid given a substantial state budget gap. Management reports first quarter sales tax revenues are performing better than budget and other revenues are being generated as expected. Moving forward, town officials intend to continue to generate annual recurring revenues, annually appropriate monies to eliminate the interfund payable to the Highway Fund by the end of fiscal 2011, and continue to monitor and cut expenditures in order to restore fiscal stability to the town's severely distressed financial position. Future rating reviews will factor the town's effective implementation of its financial improvement plan to restore structural balance and replenish reserves to adequate levels. Further erosion of reserve levels on an absolute or percentage basis could place downward pressure on the rating, particularly in light of the town's reliance on economically-sensitive sales and mortgage tax revenues.

SALES TAX ALLOCATED INCORRECTLY PER NY STATE COMPTROLLER AUDIT

In February 2008, the New York State Comptroller published an audit of Colonie's financial condition and found that the 2006 sales tax allocation to the General Fund only was not consistent with applicable laws, which require sales tax receipts to be first allocated to the Highway Fund to eliminate the property tax levy apportioned to this fund. The incorrect accounting of the sales tax continued in fiscal years 2007 and 2008, significantly increasing the amount due to the Highway Fund from the General Fund to an estimated \$20 million by year-end 2008. Management began to repay these funds in fiscal 2009 with a \$8 million transfer to the Highway Fund from the General Fund. The accounting treatment of sales tax receipts has also been corrected in the 2010 budget, which includes a \$6.6 million transfer.

DIVERSE ALBANY SUBURB WITH ABOVE AVERAGE INCOME LEVELS

Moody's expects the town's \$8.6 billion tax base to remain stable given its favorable location in the center of the Albany (G.O. rated A1), Troy (Issuer rating A2), and Schenectady (G.O. rated A1) tri-city region, providing easy access to employment opportunities, including state government jobs, although the state's budget crisis may drive an increase in unemployment over the near term, should state layoffs be implemented. The town is approximately half residential and half commercial/industrial with numerous shopping centers and the Albany County Airport providing diversity and generating substantial sales tax receipts. In line with regional trends, previously robust full value appreciation, which drove double digit growth in 2007, reversed to a notable 8.9% decline in 2009, reflecting weakening in the real estate market that has been modestly recovered with the 2.3% growth generated for 2010. Over a five year period (2005-2010), the town's assessed valuation increased by a modest 0.7% annually, with essentially flat growth posted for 2010, reflecting the mature nature of the tax base with growth driven largely by redevelopment projects. Currently, residential construction reportedly continues, with development of multiple single family homes and condominiums throughout the town. A Fresh Markets grocery store along with Anjio Dynamics, among others, will be incorporated in the tax base for 2011. Wealth levels are above average, with per capita income equal to 107.9% and 116.9% of state and national medians, respectively. Full value per capita is a healthy \$105,826.

BELOW AVERAGE DEBT BURDEN WITH MODERATE FUTURE DEBT PLANS

Moody's anticipates that the town's debt burden will remain manageable given average amortization of principal (66.2% retired within 10 years) and moderate future debt plans. The town's direct debt burden is below average at 0.8% of full valuation and increases to a still below average 2.4% when including the town's pro rata share of overlapping county and school district debt obligations. The town may borrow up to \$8 million in 2010 to close Area five of the landfill. This debt is expected to be self-supporting from landfill user fees. The town continues to defer non-essential capital projects as it addresses its severely distressed financial position, but the current three year capital plan includes approximately \$5 million to \$6 million of annual capital borrowings, which Moody's believes is manageable as debt service comprised an average 8.2% of operating expenditures in 2009. The town has historically borrowed for cash flow purposes, issuing \$5 million to \$6 million in revenue anticipation notes annually for the last seven years. The town has no variable rate debt and is not party to any derivative agreements.

KEY STATISTICS:

2008 (census estimate) Population: 81,540 (2.9% increase since 2000)

2010 Full Valuation: \$8.6 billion

2010 Full Value Per Capita: \$105,826

2000 Per Capita Income (as % of NY and US): \$25,231 (108% and 117%)

2000 Median Family Income (as % of NY and US): \$62,649 (121% and 125%)

Direct Debt Burden: 0.8%

Overall Debt Burden: 2.4%

Payout of Principal (10 years): 66.2%

FY08 General Fund Balance: -\$29.4 million (-75.6% of General Fund revenues)

FY08 Combined Operating Fund Balance (General, Highway, Town Outside Village): -\$9.2 million (-15.2% of combined revenues)

FY09 Unaudited General Fund Balance: -\$22.1 million (-41.6% of General Fund revenues)

FY09 Unaudited Combined Operating Fund Balance (General, Highway, Town Outside Village): -\$8.7 million (-14.7% of Combined Fund Revenues)

Post-sale Parity Debt Outstanding: \$76.7 million

PRINCIPAL METHODOLOGY

The principal methodology used in assigning the rating was "General Obligation Bonds Issued by U.S. Local Governments," published on October 2009 and available on www.moody.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

LAST RATING ACTION

The last rating action with respect to the town was on March 13, 2009, when a municipal finance scale rating of Baa1 was affirmed. That rating was subsequently recalibrated to A1 on April 16, 2010.

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