Thomas P. DiNapoli • State Comptroller

2012 FISCAL PROFILE

CITY OF NIAGARA FALLS

Overview

The City of Niagara Falls has struggled through decades of population losses, rising crime and repeated attempts to reinvent itself from a manufacturing town with some tourism to a major tourist destination. In recent years, the City had benefitted from two significant new sources of State aid revenue: increased State revenue sharing and the "local share" of payments made by the Seneca Nation to the State related to the new Seneca-Niagara Casino, located in the City.

Just as Niagara Falls seemed to be making headway – building up reserves and investing in economic development activities to attract businesses – a dispute between the Seneca Nation and the State of New York has resulted in the City losing as much as $60 million in revenue. As a result, in 2010 and 2011 Niagara Falls spent down its fund balance in anticipation of receiving this revenue, and appealed to the State for a "bridge loan." The City's 2013 executive budget proposal called for significant layoffs, program cutbacks and property tax increases, some of which may be reduced by a recently-enacted $13.5 million spin-up of New York Power Authority payments to the City.

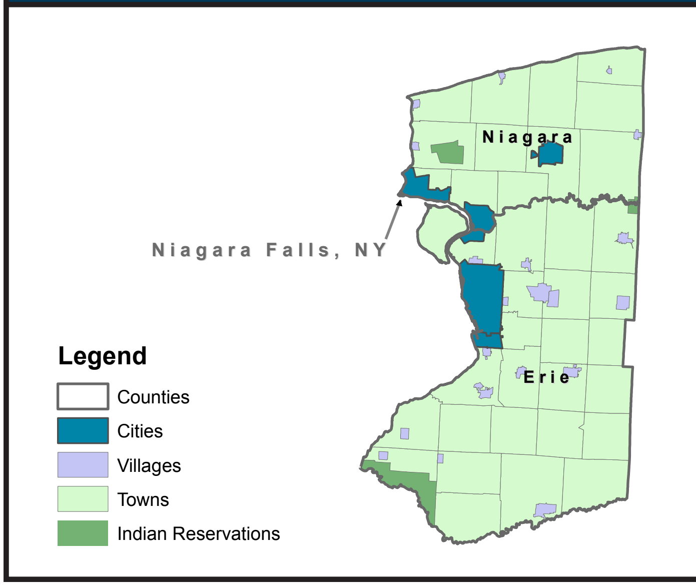
- The City of Niagara Falls had a population of 50,193 in 2010, less than half as much as at its peak in 1960.
- The City's median household income of $31,452 in 2010 was below the $37,607 median for all cities and the State median of $55,603; 17.6 percent of its families live in poverty, compared to 10.8 percent statewide.
- The median home price in Niagara Falls is $65,400, compared with the median city's price of $96,000, and 13.8 percent of its buildings are vacant, well above the 9.2 percent vacancy rate for the median city.
- The City has exhausted 77 percent of its Constitutional Tax Limit and 76 percent of its Constitutional Debt Limit, compared with the median city's 44 and 23 percent, respectively.
- Despite these challenges, compact revenues from the Seneca-Niagara Casino had enabled the City to build up a relatively healthy fund balance of 26.4 percent of general fund revenues before this revenue source dried up due to a dispute between the Seneca Nation and the State.

Population and Economic Factors

Although the City's failure to receive planned casino revenue has significantly impacted its current fiscal condition, Niagara Falls' problems are chronic in nature. At a population of 50,193 in 2010, Niagara Falls is literally less than half the city it was in 1960. During the first half of the 20th century, cheap hydroelectric power generated by the Niagara Falls Power Project attracted manufacturing plants and workers. At its peak in 1960, Niagara Falls' population was 102,394. The City's decline has been nearly as precipitous as its rise. By 2010, Niagara Falls had lost 51 percent of its population, the largest percentage drop in population from 1960 to 2010 for any city in New York State.

Niagara Falls' median income of $31,452 is well below the State average of $55,603 and below that of the median city ($37,607). Its poverty rate is higher, with 17.6 percent of its families living in poverty, compared with 10.8 percent statewide. And the City's September unemployment rate of 11.4 percent was significantly higher than the statewide rate of 8.2 percent. Niagara Falls also has high crime rates: according to FBI statistics for 2009, the City ranked fourth in violent crimes per capita and second in property crimes and crime overall among New York's cities.

Buffalo-Niagara Falls Metropolitan Statistical Area (MSA)



Tax Base

As its manufacturing base declined, Niagara Falls attempted to re-emphasize its identity as a tourist destination in the 1970s. The City's plan hinged on razing much of the existing downtown on Old Falls Street to build a large complex that included an indoor outlet mall meant to attract tourists returning from Canada, a giant convention center, new office buildings, a glass-enclosed "winter garden," and parking garages. By the turn of the 21st century, however, the buildings were mostly empty, and the indoor garden was closed.

More recently, the Seneca-Niagara Casino and hotel complex has replaced the convention center, the mall is currently being redeveloped into a culinary school with retail and restaurant spaces available, and the building that once held the winter garden has been taken down to create better pedestrian access from the downtown complex to Niagara Falls State Park.

Housing Statistics

	Niagara Falls	Median City
Home Ownership	55.0%	49.5%
Median Home Value	$65,400	$96,000
Vacant Units	13.8%	9.2%
Exempt from Tax	44.8%	32.0%

The impact of the casino and the redevelopment efforts on the City's tax base is unclear. Property values have risen by a modest 19 percent over the past ten years (2002 to 2012), averaging 1.7 percent per year, compared with a statewide average of 4.2 percent for all cities. As of 2010, Niagara Falls' median home value was $65,400, well below the average for New York's cities (excluding New York City). In addition, the housing vacancy rate in the City was nearly 14 percent, also above the State average. And, partly due to the casino's tax-exempt status, the City has a higher-than-average portion of property that is exempt from taxation – 44.8 percent, compared with the median city's 32.0 percent.

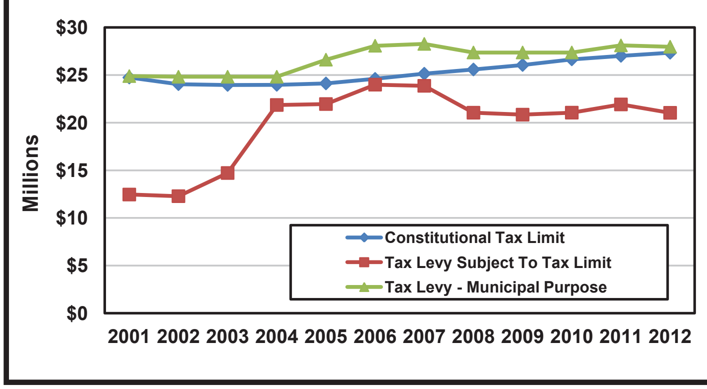
Another issue facing Niagara Falls is its proximity to its Constitutional Tax Limit (CTL). Unlike the recently-enacted property tax levy limit which caps the growth in levy from one year to the next (with the opportunity to override), the CTL caps the total amount of property taxes cities, villages and counties in New York State are allowed to levy. Most cities are not in danger of exceeding this limit, which is set at 2 percent of the five-year average of their full valuation (with certain exclusions). However, in 2004, Niagara Falls came very close to its limit, and by 2006, the City was within 2 percentage points of it, giving the City very little flexibility to increase its levy. Although the City had a more comfortable tax margin of about 23 percent ($6.3 million) as of 2012, it is still considered close, especially since the City's property value growth remains slow, suppressing growth in the CTL.

Revenues and Expenditures

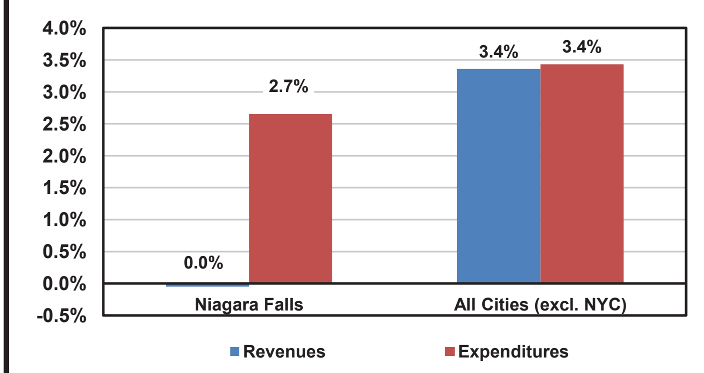
On an annual average basis, City revenues do not appear to have grown at all between 2001 and 2011, while expenditures increased at a rate of 2.7 percent. However, this masks a great deal of fluctuation, and makes it appear as though the City has generally spent far more than it collected. In fact, Niagara Falls has managed to keep expenditure growth within available revenues for most of the past ten years, building up a relatively healthy fund balance in the process. This balancing act was dependent in large part on one revenue source: Niagara Falls' share of State funds that were collected from the Seneca-Niagara Casino. According to a negotiated compact, the Seneca Nation agreed to pay the State a portion of profits from several casinos, in exchange for exclusive rights to offer Class III gaming in a large part of western New York. A share of these revenues would be apportioned to the local communities hosting the casinos after they were collected by the State, in order to pay for increased local expenditures required by the casino, such as public safety and infrastructure expansion, as well as to help fund economic development programs.

In 2009, however, the Seneca Nation ceased making compact payments to New York State. The stated reason was that by instituting slot machines at racetracks in Hamburg, Batavia and the Finger Lakes, as well as by permitting a gambling device called "Moxie Mania" in taverns and restaurants, the State had violated the terms of that agreement. New York State, in turn, halted payment to the cities of their local shares, depriving Niagara Falls of $60 million to date. Although the State has recently entered into binding arbitration with the Seneca Nation for a resolution to the matter, it is uncertain when or how it will be resolved.

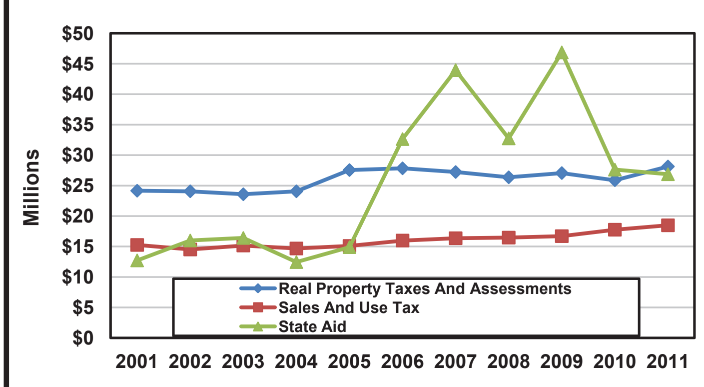
Niagara Falls Tax Levy vs. CTL, 2001 to 2012



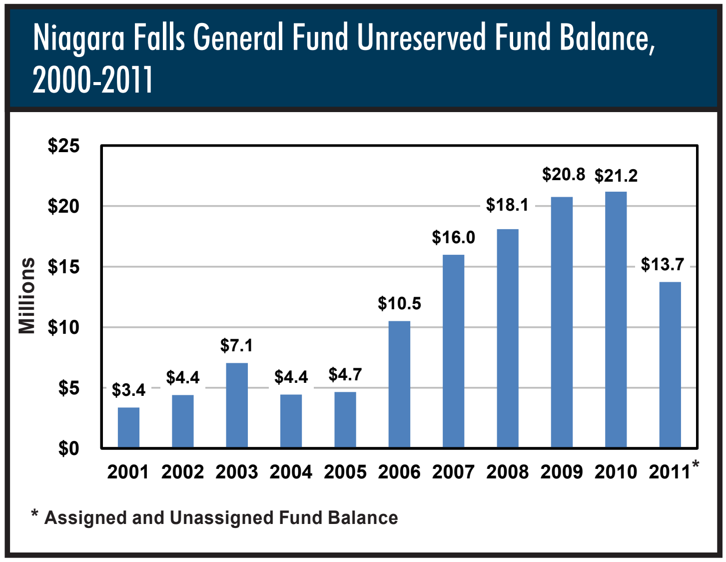
Annual Average Growth in Revenues and Expenditures, 2001 to 2011, Niagara Falls vs. All Cities (excl. NYC)



Niagara Falls Major Revenue Sources, 2001-2011



Current and Projected Budget Situation



In 2011, the City's unrestricted general fund (GF) balance declined from $21.2 million (25.2 percent of total GF revenues) to $13.7 million (17.0 percent) as the City drew on these reserves to help fill the gap created by the loss of the casino revenues. In the spring of 2012, the City Controller estimated that the City faced a cash deficit of $21 million by the end of 2012 if no resolution is found, and the City Council voted to enact spending restrictions on all but the most basic of City services until the situation was resolved. In November, the mayor presented what he called a "disaster budget" for 2013, requiring layoffs of 20 existing full time staff, eliminating existing open positions and precluding the hire of many seasonal employees for summer programs. Shortly thereafter, the State authorized the New York Power Authority to convert an $850,000 annual payment stream that it would otherwise have provided the City with over the next 44 years, into an equivalently valued lump-sum amount of approximately $13.45 million. This should help ameliorate some budget pressures for the City in 2013, but presents a long-term risk to the City of lost future revenue if the arbitration does not result in any casino payments.

Bond Ratings and Debt

As of its most recent bond issuance in 2011, the City was rated A2 by Moody's Investors Service, BBB+ by Standard and Poor's Ratings Service (S&P), and A by Fitch Ratings. These ratings are all in the medium grade range. The main factors counting against the City were the lack of certainty with respect to the casino revenue and the City's negative long-term demographic trends and high unemployment compared with the rest of the State.

The City also carries a fairly high debt burden, especially when measured against the City's full value, having exhausted approximately 76 percent of its constitutional debt limit as of 2011, compared to the median city's 23 percent exhausted. Total outstanding debt more than doubled from $33.5 million in 2006 to $69.7 million in 2007, and reached $73.8 million by 2011. Nonetheless, the City's outstanding debt of $1,470 per capita is only slightly higher than the median city's debt per capita of $1,300, and its debt service payments represent a below-median percentage of revenue, at 6.1 percent, as compared to 8.4 percent for the median city.

Niagara Falls vs. All Cities and New York State

Population 2010: 50,193	City of Niagara Falls	All Cities (excluding NYC)		New York State
		Median	Aggregate	
Demographic Indicators				
Percent Change in Population 1950-2010	-45%	-20%	-25%	31%
Median Household Income, 2010	$31,452	$37,607	N/A	$55,603
Percentage of Families in Poverty 2010	17.6%	13.7%	16.6%	10.8%
Unemployment Rate September 2012	11.4%	N/A	N/A	8.2%
Property Value Indicators				
Median Home Value 2010	$65,400	$96,000	N/A	$303,900
Percent Change in Full Value 2007-2012	6.3%	11.6%	-1.3%	5.4%
Owner-Occupied Housing Units 2010	55.0%	49.5%	45.4%	53.3%
Property Vacancy Rate 2010	13.8%	9.2%	10.4%	9.7%
Percentage of Property Value That is Tax Exempt 2010	44.8%	32.0%	34.9%	25.6%
Revenue and Tax Indicators				
State Revenue Sharing Aid (AIM) per Capita SFY 2012-13	$354.52	$146.80	$289.50	N/A
Tax Limit Exhausted 2012	77%	44%	N/A	N/A
GF Unreserved Fund Balance as a % of Revenue 2007	19.8%	13.1%	15.7%	N/A
GF Unreserved Fund Balance as a % of Revenue 2011	17.0%	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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