



2012 FISCAL PROFILE

CITY OF SALAMANCA

Overview

Salamanca is a small city located almost entirely within the Allegany Territory of the Seneca Nation in western New York. In recent years, the City's long-term demographic and economic challenges have been exacerbated by a continuing decline in the property tax base. Between 2004-05 and 2009-10, the City benefitted from a large new source of State aid based on revenues collected from the Seneca Allegany Casino. It used these to make improvements to local services and infrastructure made necessary by the casino, and to invest in economic development. However, starting in the City's 2010-11 fiscal year, it lost these revenues unexpectedly due to a dispute between the Seneca Nation and New York State over exclusive gaming rights.

Although Salamanca responded to this revenue crisis by aggressively cutting staffing and appealing to the State for replacement aid, the City essentially depleted its fund balance by the end of its 2010-11 fiscal year, leaving it in a vulnerable fiscal position. Although the State provided the City with a one-time advance of \$5 million to pay off a bond anticipation note on a major economic development land purchase and some revenue anticipation notes, and to cover operating costs in 2011-12, Salamanca now faces a 2012-13 revenue shortfall of \$2.5 million (about 35 percent of 2011-12 General Fund revenue), and could run out of cash before the fiscal year ends on March 31, 2013.

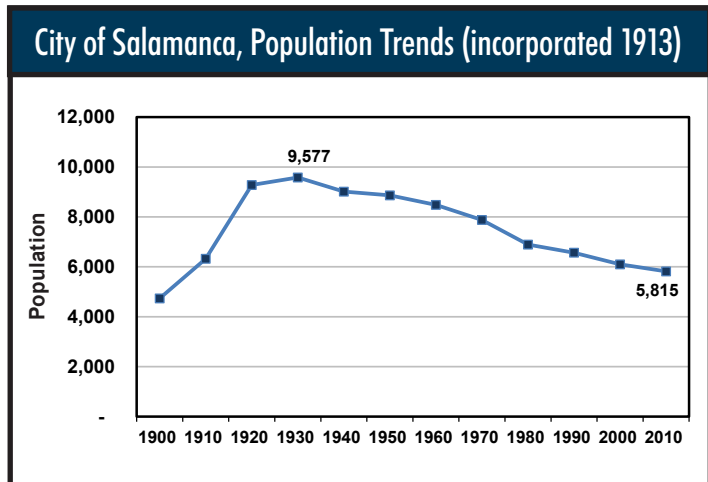
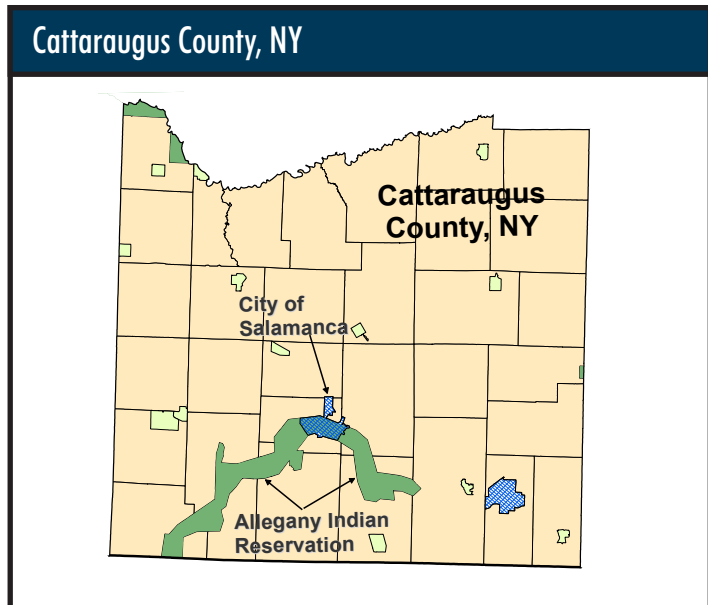
- The City of Salamanca's 2010 population was 5,815, making it one of the smallest cities in New York.
- The City's median income of \$32,741 in 2010 was below the median for all New York cities of \$37,607 and the State median of \$55,603. In addition, 15.3 percent of its families live in poverty, compared with 10.8 percent statewide.
- The median home value in Salamanca is \$70,500 compared with the median city's price of \$96,000, and 13.2 percent of properties are vacant, well above the 9.2 percent vacancy rate of the median city.
- Nearly 62 percent of Salamanca's property value was tax exempt in 2010. This proportion has been increasing in recent years, as tribal property ownership has increased.
- Despite these challenges, exclusivity compact revenues from the Seneca Allegany Casino had enabled the City to invest in infrastructure improvements and economic development projects before this revenue was discontinued due to a dispute between the Seneca Nation and the State.
- The State gave the City a one-time advance of \$5 million in 2011-12 to compensate for lost casino revenues, and has entered into arbitration of its dispute with the Seneca Nation.

Population and Economic Factors

With a population of only 5,815 in 2010, Salamanca is the fourth smallest city in New York State, larger only than Sherrill, Little Falls and Mechanicville. Even at its peak in 1930, when its rail yards and small industries were thriving, the City's population was less than 10,000. Currently, the City's main employer is the Seneca Allegany Casino.

The City's median income of \$32,741 is well below the State median of \$55,603, and below that of the median city (\$37,607). Its poverty rate is high, with 15.3 percent of the City's families living in poverty, compared with 10.8 percent statewide and 13.7 percent for the median city.

The unemployment rate in Cattaraugus County, where Salamanca is located, was 8.3 percent in September 2012, essentially the same as the statewide average of 8.2 percent. However, according to the Census's American Community Survey, the City of Salamanca itself has higher-than-average unemployment.¹



¹ The ACS uses 5 year averages of survey data to determine estimated rates even for very small local governments, such as Salamanca. For the 2006-2010 period, Salamanca's unemployment rate estimated by ACS was 9.9 percent, much higher than the State's average unemployment rate of 7.5 percent over that same period.

Tax Base

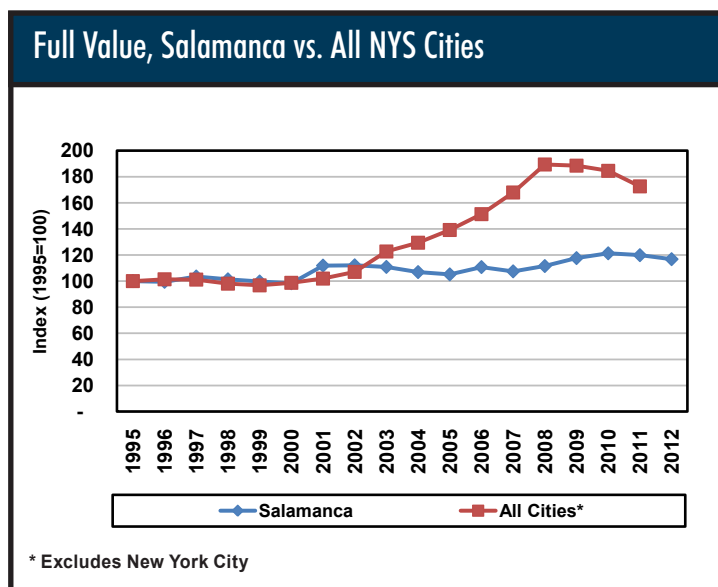
The median home value in Salamanca is \$70,500, lower than the \$96,000 median value for all cities, and a vacancy rate of 13.2 percent, which is higher than the 9.2 percent of the median city.

The City of Salamanca has not seen any significant growth in property values over the past 16 years, averaging growth of 1.1 percent per year, while New York's cities overall averaged growth of about 3.5 percent per year over the same period. When adjusted for inflation, real property values in the City actually declined.

There are multiple reasons for Salamanca's lack of growth. Because 92 percent of the City is located on the Allegany Territory of the Seneca Nation, all non-tribal residents (and the City itself) must lease their property from the Nation, on terms negotiated between the Seneca Nation and the federal government. These leases were renegotiated in 1990, after 99 years under the prior lease terms, and until just recently, were up for renewal in 2030. The uncertainty around this lease system made it very difficult for non-tribal purchasers to obtain traditional 30-year mortgages, or to borrow against the equity in their homes, depressing home values. A recent offer by the Seneca Nation to allow 80-year leases may help address this issue, if implemented. In addition, members of the Seneca Nation or its tribal government who own individual properties within the City pay neither lease fees nor property taxes. As of 2010, 61.9 percent of assessed value in the city was tax-exempt, ranking second out of all cities for exempt property, following Ogdensburg, which has a large State prison.

Even so, the City is not particularly close to exceeding its Constitutional Tax Limit (CTL), which 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). Given its small tax base, however, even raising the levy to 100 percent of the CTL would only raise about \$1.3 million in additional revenue.

Housing Statistics		
	Salamanca	Median City
Home Ownership	54.7%	49.5%
Median Home Value	\$70,500	\$96,000
Vacant Units	13.2%	9.2%
Exempt from Tax	61.9%	32.0%



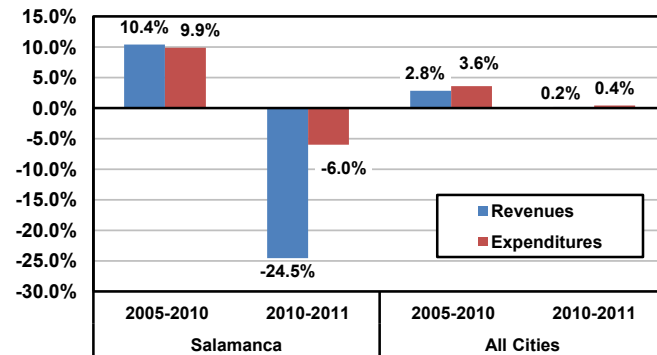
Revenues and Expenditures

Between 2004-05 and 2009-10, Salamanca saw double-digit average annual revenue growth, and nearly 10 percent average spending increases, at a time when revenues and expenditures were growing more moderately in other cities. The primary driver behind Salamanca's revenue and expenditure growth after 2004-05 was a significant increase in State aid, mostly attributable to Seneca Allegany Casino revenue.

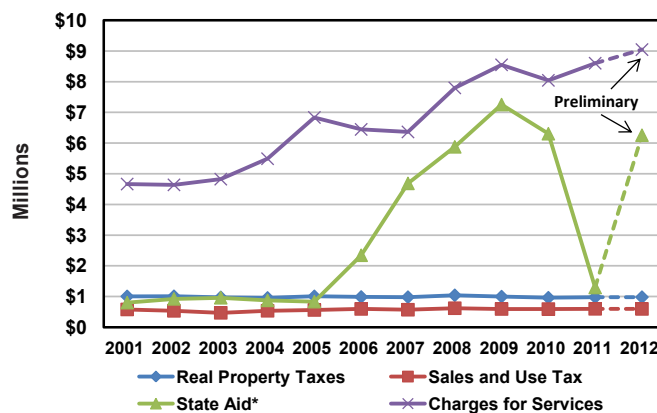
According to a negotiated compact, the Seneca Nation agreed to pay the State a portion of profits from several casinos, in exchange for exclusive rights to offer Class III gaming in a large part of western New York. A share of these revenues would be apportioned to the local communities hosting the casinos after they were collected by the State, in order to pay for increased local expenditures, such as public safety and infrastructure expansion, and in Salamanca's case, in order to make up for lost tax revenue from increasing numbers of tax-exempt properties. According to the agreement, Salamanca was to benefit from this major new revenue stream through at least 2016, with an option to renew through 2023.

Between 2004-05 and 2009-10, State aid for the City, including casino revenues, increased by an average annual rate of nearly 50 percent (starting at \$0.8 million in 2004-05 and peaking at \$7.3 million in 2008-09). Salamanca's average annual expenditure increases on debt service, general government, transportation, utilities and public safety between 2004-05 and 2009-10 were all in the double digits.

Annual Change in Revenues and Expenditures, 2005-2010 avg vs. 2010-2011, Salamanca vs. All Cities



Major Sources of Revenue, All Funds, 2001 to 2012 (preliminary)



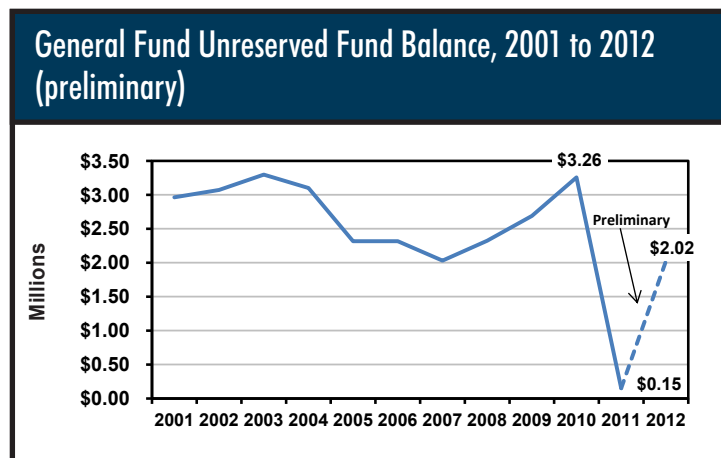
* Includes local share of exclusivity payments from casino in relevant years.

In the fall of 2010, the Seneca Nation announced that it would be making no further payments to New York State, claiming that the State had violated the compact by allowing video lottery terminals (which it deems slot machines) in “racinos” within the exclusivity zone. This left Salamanca with a large gap in its 2010-11 budget and beyond. The City responded by reducing spending for general government and economic development by more than 40 percent from 2009-10 to 2010-11, but had less control over other areas of spending, such as employee benefits, which continued to increase.

In 2011-12, the State advanced Salamanca \$5 million in a one-time emergency, no-interest loan to compensate for the loss of casino revenue. This infusion greatly improved the City’s financial condition in 2011-12. However, City management submitted a multiyear financial plan to the State in March 2012 which noted the City’s intent “to seek an emergency aid package from the State” in 2012-13 as well.

Current and Projected Budget Situation

According to City management, when casino payments did not arrive in the middle of the City’s 2010-11 fiscal year, Salamanca reduced its full-time employee positions from 104 to 78 and spent down nearly all of its 2010-11 unreserved fund balance (\$3.1 million). The City also appealed to the State for additional aid to compensate for the lost local share of casino revenues until the dispute was resolved. In response, as discussed above, the State provided an acceleration of aid payable to the City of \$5 million, which arrived in Salamanca’s 2011-12 fiscal year. According to the City, \$1.6 million was used to pay off a bond anticipation note and the remainder was targeted to help cover operating expenses and pay off a \$1.3 million revenue anticipation note. Despite a healthy fund balance at the end of 2011-12, this boost was temporary and the City anticipates needing another \$2.5 million in State aid by the end of its 2012-13 fiscal year.



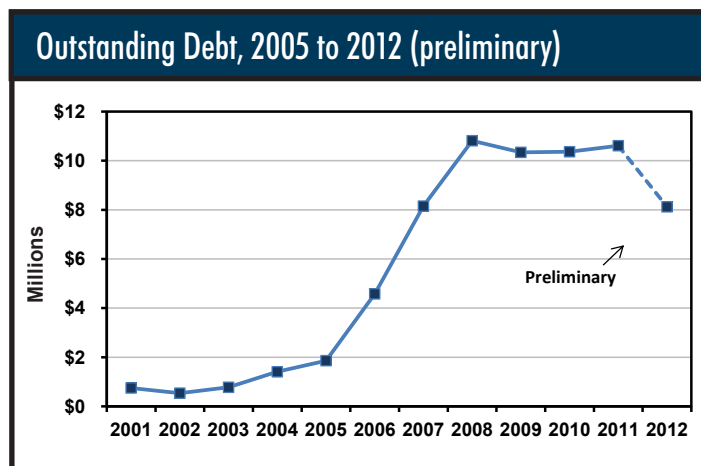
Bond Ratings and Debt

In October of 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term rating on Salamanca's general obligation debt to 'BBB+' from 'A-' and noted that the outlook is negative.

The immediate downgrade was based on the City's reduction in general fund reserves due to the loss of the compact revenues and uncertainty over the receipt of replacement revenues from the State, somewhat mitigated by the City management's aggressive response to the loss of a significant portion of general fund revenues and its history of strong reserves.

Longer-term concerns cited by S&P included Salamanca's limited economy, continued decline in assessed value and low per capita property values, and low income indicators.

Salamanca's outstanding debt more than doubled from 2005-06 to 2007-08, from \$4.6 million to \$10.8 million, and then remained fairly stable between 2007-08 and 2010-11, amounting to \$10.6 million by the end of 2010-11, or \$1,825 per capita, which was above that of the median city (\$1,300). Outstanding debt in 2010-11 represented \$11.12 per \$1,000 of the City's full value, which is nearly four times higher than the median for all cities of \$2.82 per \$1,000, in large part because the City's property values are so low. From 2005-06 to 2010-11, the City's debt service increased from 1.8 percent of revenues to 9.1 percent. At 59 percent of its Constitutional Debt Limit in 2010-11, the City was not in danger of exceeding that limit, despite being well above the debt limit exhausted by the median city (22 percent). And according to preliminary data filed with OSC, the State's emergency assistance reduced the City's total outstanding debt to \$8.1 million by the end of 2011-12. This is still much higher than the burden carried by the City prior to the establishment of the casino.



Salamanca vs. All Cities and New York State

Population 2010: 5,815	City of Salamanca	All Cities (excluding NYC)		New York State
		Median	Aggregate	
Demographic Indicators				
Percent Change in Population 1950-2010	-34%	-20%	-25%	31%
Median Household Income, 2010	\$32,741	\$37,607	N/A	\$55,603
Percentage of Families in Poverty 2010	15.3%	13.7%	16.6%	10.8%
Property Value Indicators				
Median Home Value 2010	\$70,500	\$96,000	N/A	\$303,900
Percent Change in Full Value 2007-2012	8.7%	11.6%	-1.3%	5.4%
Owner-Occupied Housing Units 2010	54.7%	49.5%	45.4%	53.3%
Property Vacancy Rate 2010	13.2%	9.2%	10.4%	9.7%
Percentage of Property Value That is Tax Exempt 2010	61.9%	32.0%	34.9%	25.6%
Revenue and Tax Indicators				
State Revenue Sharing Aid (AIM) per Capita SFY 2012-13	\$159.61	\$146.80	\$289.50	N/A
Tax Limit Exhausted 2012	30%	44%	N/A	N/A
GF Unreserved Fund Balance as a % of Revenue 2007	36.6%	13.1%	15.7%	N/A
GF Unreserved Fund Balance as a % of Revenue 2011	3.3%	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; Office of the State Comptroller.

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