

PRELIMINARY OFFICIAL STATEMENT DATED OCTOBER 10, 2018

RENEWALS/NEW ISSUE

BOND ANTICIPATION NOTES

In the opinion of Barclay Damon LLP, Albany, New York, under existing law, (1) interest on the Notes is excluded from the gross income of the owners thereof for federal income tax purposes and is not a "item of tax preference" for purposes of the individual alternative minimum tax imposed by the Internal Revenue Code of 1986, as amended (the "Code"), except that the City, by failing to comply with certain restrictions contained in the Code, may cause interest on the Notes to become subject to federal income taxation from the date of issuance thereof; and (2) interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including the City of New York). "TAX MATTERS" herein.

The Notes will be designated as "qualified tax-exempt obligations" pursuant to Section 265(b)(3) of the Code.

CITY OF WATERVLIET, ALBANY COUNTY, NEW YORK (the "City")

\$2,970,000

BOND ANTICIPATION NOTES – 2018 (the "Notes")

Dated Date: October 25, 2018

Maturity Date: October 25, 2019

Security and Sources of Payment: The Notes are general obligations of the City of Watervliet, Albany County, New York (the "City"), and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and interest thereon and, unless paid from other sources, the Notes are payable from ad valorem taxes which may be levied upon all the taxable real property within the City, subject to certain statutory limitations imposed by Chapter 97 of the New York Laws of 2011, as amended (the "Tax Levy Limitation Law"). (See "Tax Levy Limitation Law," herein).

Prior Redemption: The Notes will not be subject to redemption prior to their maturity.

Form and Denomination: At the option of the purchaser, the Notes may be either registered to the purchaser or registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC") as book-entry notes. For those Notes registered to the purchaser, a single note certificate shall be delivered to the purchaser(s), for those Notes bearing the same rate of interest in the aggregate principal amount awarded to such purchaser at such interest rate. Those Notes issued in book-entry form will be issued as registered notes, and, when issued, will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"), New York, New York, which will act as the Securities Depository for the Notes. A single note certificate will be issued for those Notes bearing the same rate of interest and CUSIP number in the aggregate principal amount awarded to such purchaser at such interest rate. Individual purchases of any Notes issued in book-entry form may be made only in book-entry form in denominations of \$5,000 or integral multiples thereof. Noteholders will not receive certificates representing their respective ownership interests in any Notes issued in book-entry form. (See "Book-Entry System" herein).

Payment: Payment of the principal of and interest on any Notes issued in book-entry form will be made by DTC Participants and Indirect Participants in accordance with standing instructions and customary practices. Payment will be the responsibility of the DTC Participants or Indirect Participants and not of DTC or the City, subject to any statutory and regulatory requirements as may be in effect from time to time. Principal and interest payments on any book-entry Notes shall be payable at the office of the City Clerk. See "Book-Entry System" herein. Payment of the principal of and interest on the Notes registered to the Purchaser will be payable in lawful money of the United States of America (Federal Funds) at such bank or trust company located and authorized to do business in the State of New York as may be selected by the successful bidder.

Proposals for the Notes will be received at 11:00 A.M. (Prevailing Time) on October 17, 2018 at the office of Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776.

The Notes are offered subject to the final approving opinion of Barclay Damon LLP, Bond Counsel, Albany, New York and certain other conditions. It is anticipated that the Notes will be available for delivery through the facilities of DTC in Jersey City, New Jersey, or as otherwise agreed to by the City and the Purchaser on or about October 25, 2018.

THIS OFFICIAL STATEMENT IS IN A FORM "DEEMED FINAL" BY THE CITY FOR THE PURPOSES OF SECURITIES AND EXCHANGE COMMISSION RULE 15c2-12 (THE "RULE"). FOR A DESCRIPTION OF THE CITY'S AGREEMENT TO PROVIDE CONTINUING DISCLOSURE FOR THE NOTES, AS DESCRIBED IN THE RULE, SEE "DISCLOSURE UNDERTAKING" HEREIN.

**CITY OF WATERVLIET
ALBANY COUNTY, NEW YORK**

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Frank G. McGrouty, Councilman

Jeremy Smith, General Manager
Michael McNeff, Director of Finance

Scott O'Reilly, City Clerk

Yorden C. Huban, Esq., Corporation Counsel

* * *

BOND COUNSEL

Barclay Damon LLP
Albany, New York

* * *

MUNICIPAL ADVISOR



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Port Jefferson Station, N.Y. 11776

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No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained by the City from sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

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OFFICIAL STATEMENT

Relating to

CITY OF WATERVLIET ALBANY COUNTY, NEW YORK

\$2,970,000 BOND ANTICIPATION NOTES – 2018 (the “Notes”)

This Official Statement, including the cover page and appendices thereto, has been prepared by the City and presents certain information relating to the City's \$2,970,000 Bond Anticipation Notes – 2018 (the “Notes”). All quotations from and summaries and explanations of provisions of the Constitution and laws of the State of New York (the “State”) and acts and proceedings of the City contained herein do not purport to be complete and are qualified in their entirety by reference to the official compilations thereof and all references to the Notes and the proceedings of the City relating thereto are qualified in their entirety by reference to the definitive form of the Notes and such proceedings.

THE NOTES

Description of the Notes

The Notes are general obligations of the City. The City has pledged its faith and credit for the payment of the principal of and interest on the Notes and, unless paid from other sources, the Notes are payable from ad valorem taxes which may be levied upon all the taxable real property within the City, subject to certain statutory limitations imposed by the Tax Levy Limitation Law. (See “*Tax Levy Limitation Law*” herein).

The Notes will be dated and will mature, without the option of prior redemption, as indicated on the cover page hereof.

At the Purchaser's option and sole expense, the purchaser may select a bank or trust company authorized to do business in the State of New York to act as paying agent for the Notes.

The Director of Finance will act as Paying Agent for the Notes. The City's contact information is as follows: Michael McNeff, Director of Finance, City of Watervliet, City Hall, Watervliet, New York 12189, Phone (518) 270-3800, Fax (518) 270-3838 and email: mmcneff@watervliet.com.

Nature of Obligation

The Notes when duly issued and paid for will constitute a contract between the City and the holder thereof.

Holder of any series of bonds or notes of the City may bring an action or commence a proceeding in accordance with the civil practice law and rules to enforce the rights of the holders of such series of notes or bonds.

The Notes will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon as required by the Constitution and laws of the State. For the payment of such principal and interest, the City has power and statutory authorization to levy ad valorem taxes on all real property within the City subject to such taxation by the City, subject to applicable statutory limitations.

Although the State Legislature is restricted by Article VIII, Section 12 of the State Constitution from imposing limitations on the power to raise taxes to pay “interest on or principal of indebtedness theretofore contracted” prior to the effective date of any such legislation, the New York State Legislature may from time to time impose additional limitations or requirements on the ability to increase a real property tax levy or on the methodology, exclusions or other restrictions of various aspects of real property taxation (as well as on the ability to issue new indebtedness). On June 24, 2011, Chapter 97 of the Laws of 2011 of the State of New York was signed into law (the “Tax Levy Limitation Law”). The Tax Levy Limitation Law applies to local governments and school districts in the State (with certain exceptions) and imposes additional procedural requirements on the ability of municipalities and school districts to levy certain year-to-year increases in real property taxes.

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Notes and is required to raise real estate taxes, and without specification, other

revenues, if such levy is necessary to repay such indebtedness. While the Tax Levy Limitation Law imposes a statutory limitation on the City's power to increase its annual tax levy, with the amount of such increase limited by the formulas set forth in the Tax Levy Limitation Law, it also provides the procedural method to override that limitation. See "TAX INFORMATION - Tax Levy Limitation Law."

The Constitutionally-mandated general obligation pledge of municipalities and school districts in New York State has been interpreted by the Court of Appeals, the State's highest court, in *Flushing National Bank v. Municipal Assistance Corporation for the City of New York*, 40 N.Y.2d 731 (1976), as follows:

"A pledge of the city's faith and credit is both a commitment to pay and a commitment of the city's revenue generating powers to produce the funds to pay. Hence, an obligation containing a pledge of the City's "faith and credit" is secured by a promise both to pay and to use in good faith the city's general revenue powers to produce sufficient funds to pay the principal and interest of the obligation as it becomes due. That is why both words, "faith" and "credit" are used and they are not tautological. That is what the words say and this is what the courts have held they mean . . . So, too, although the Legislature is given the duty to restrict municipalities in order to prevent abuses in taxation, assessment, and in contracting of indebtedness, it may not constrict the City's power to levy taxes on real estate for the payment of interest on or principal of indebtedness previously contracted . . . While phrased in permissive language, these provisions, when read together with the requirement of the pledge and faith and credit, express a constitutional imperative: debt obligations must be paid, even if tax limits be exceeded".

In addition, the Court of Appeals in the *Flushing National Bank* (1976) case has held that the payment of debt service on outstanding general obligation bonds and notes takes precedence over fiscal emergencies and the police power of political subdivisions in New York State.

The pledge has generally been understood as a promise to levy property taxes without limitation as to rate or amount to the extent necessary to cover debt service due to language in Article VIII Section 10 of the Constitution which provides an exclusion for debt service from Constitutional limitations on the amount of a real property tax levy, insuring the availability of the levy of property tax revenues to pay debt service. As the *Flushing National Bank* (1976) Court noted, the term "faith and credit" in its context is "not qualified in any way". Indeed, in *Flushing National Bank v. Municipal Assistance Corp.*, 40 N.Y.2d 1088 (1977) the Court of Appeals described the pledge as a direct constitutional mandate. In *Quirk v. Municipal Assistance Corp.*, 41 N.Y.2d 644 (1977), the Court of Appeals stated that, while holders of general obligation debt did not have a right to particular revenues such as sales tax, "with respect to traditional real estate tax levies, the bondholders and noteholders are constitutionally protected against an attempt by the State to deprive the city of those revenues to meet its obligations." According to the Court in *Quirk*, the State Constitution "requires the city to raise real estate taxes, and without specification other revenues, if such a levy be necessary to repay indebtedness."

In addition, the Constitution of the State requires that every county, city, town, village, and school district in the State provide annually by appropriation for the payment of all interest and principal on its serial bonds and certain other obligations, and that, if at any time the respective appropriating authorities shall fail to make such appropriation, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. In the event that an appropriating authority were to make an appropriation for debt service and then decline to expend it for that purpose, this provision would not apply. However, the Constitution of the State does also provide that the fiscal officer of any county, city, town, village, or school district may be required to set apart and apply such first revenues at the suit of any holder of any such obligations.

In *Quirk v. Municipal Assistance Corp.*, the Court of Appeals described this as a "first lien" on revenues, but one that does not give holders a right to any particular revenues. It should thus be noted that the pledge of the faith and credit of a political subdivision in New York State is a pledge of an issuer of a general obligation bond or note to use its general revenue powers, including, but not limited to, its property tax levy to pay debt service on such obligations, but that such pledge may not be interpreted by a court of competent jurisdiction to include a constitutional or statutory lien upon any particular revenues.

While the courts in New York State have historically been protective of the rights of holders of general obligation debt of political subdivisions, it is not possible to predict what a future court might hold.

Optional Redemption

The Notes will not be subject to redemption prior to their maturity.

Book-Entry System

DTC will act as securities depository for any Notes issued as book-entry notes if requested by the

Purchaser. Such Notes will be issued as fully-registered securities, in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered note certificate will be issued and deposited with DTC for the Notes.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificates.

Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Standard & Poor's assigns a rating of "AA+" to DTC. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Notes with DTC and their registration in the name of Cede & Co., or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping accounts of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Beneficial Owners of the Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Notes, such as redemptions, tenders, defaults, and proposed amendments to the Note documents. For example, Beneficial Owners of the Notes may wish to ascertain that the nominee holding the Notes for their benefit has agreed to obtain and transmit notices to the Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City on the payable date, in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) or the City, subject to any statutory or regulatory requirements as

may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

Source: The Depository Trust Company, New York, New York.

CERTIFICATED NOTES

The information contained in the above section concerning DTC and DTC’s book-entry system has been obtained from sample offering document language supplied by DTC, but the City takes no responsibility for the accuracy thereof. In addition, the City will not have any responsibility or obligation to participants, to indirect participants or to any beneficial owner with respect to: (i) the accuracy of any records maintained by DTC, any participant or any indirect participant; (ii) the payments by DTC or any participant or any indirect participant of any amount with respect to the principal of, or premium, if any, or interest on the Notes or (iii) any notice which is permitted or required to be given to Noteowners.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed and delivered to the Noteowners. The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, note certificates will be printed and delivered to the Noteowners.

Authorization and Purpose

The Notes are being issued pursuant to the Constitution and statutes of the State of New York, including among others, the City Law and the Local Finance Law, and multiple bond resolutions duly adopted by the Board of the City as follows:

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Outstanding</u>	<u>Additional Amount to be Issued</u>	<u>Amount to be Issued</u>
5/4/2017	Normanskill Hydro Project	\$ 1,000,000	\$ 100,000	\$	\$ 100,000
8/17/2017	Acquisition of a Truck	200,000	200,000		200,000
8/17/2017	Reconstruction of Buildings	620,000	620,000		620,000
4/19/2018	Acquisition of Vehicles	109,171		109,171	109,171
4/19/2018	Acquisition of Vehicles	140,829		140,829	140,829
9/3/2015	Water System Improvements	<u>5,000,000</u>		<u>1,800,000</u>	<u>1,800,000</u>
	TOTAL	<u>\$ 7,070,000</u>	<u>\$ 920,000</u>	<u>\$ 2,050,000</u>	<u>\$ 2,970,000</u>

Security and Source of Payment

Each Note when duly issued and paid for will constitute a contract between the City and the holder thereof.

The Notes will be general obligations of the City and will contain a pledge of the faith and credit of the City for the payment of the principal thereof and the interest thereon. For the payment of such principal of and interest on the Notes, the City has the power and statutory authorization to levy ad valorem taxes on all taxable real property in the City, subject to certain statutory limitations imposed by the Tax Levy Limitation Law. (See “Tax Levy Limitation Law,” herein).

Under the Constitution of the State, the City is required to pledge its faith and credit for the payment of the principal of and interest on the Notes, and the State is specifically precluded from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limitation Law imposes a statutory limitation on the City’s power to increase its annual tax levy, unless the City complies with certain procedural requirements to permit the City to levy certain year-to-year increases in real property taxes. (See “Tax Levy Limitation Law,” herein).

Continuing Disclosure Undertaking

In accordance with the provisions of the "Rule", promulgated by the Securities and Exchange Commission (the "Commission") pursuant to the Securities Exchange Act of 1934, the City has agreed to provide or cause to be provided, in a timely manner not in excess of ten (10) business days after the occurrence of the event, during the period in which the Notes are outstanding, to the EMMA system of the MSRB or any other entity designated or authorized by the Commission to receive reports pursuant to the Rule, notice of the occurrence of any of the following events with respect to the Notes:

- (a) principal and interest payment delinquencies
- (b) non-payment related defaults, if material
- (c) unscheduled draws on debt service reserves reflecting financial difficulties
- (d) in the case of credit enhancement, if any, provided in connection with the issuance of the Notes, unscheduled draws on credit enhancements reflecting financial difficulties
- (e) substitution of credit or liquidity providers, or their failure to perform
- (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Note, or other material events affecting the tax status of the Notes
- (g) modifications to rights of Note holders, if material
- (h) note calls, if material and tender offers
- (i) defeasances
- (j) release, substitution, or sale of property securing repayment of the Notes
- (k) rating changes
- (l) bankruptcy, insolvency, receivership or similar event of the City
- (m) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- (n) appointment of a successor or additional trustee or the change of name of a trustee, if material

Event (c) is included pursuant to a letter from the SEC staff to the National Association of Bond Lawyers dated September 19, 1995. However, event (c) is not applicable, since no "debt service reserves" will be established for the Notes.

With respect to event (d) the City does not undertake to provide any notice with respect to credit enhancement added after the primary offering of the Notes.

The City may from time to time choose to provide notice of the occurrence of certain other events, in addition to those listed above, if the City determines that any such other event is material with respect to the Notes; but the City does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

The City reserves the right to terminate its obligation to provide the afore described notices of events, as set forth above, if and when the City no longer remains an obligated person with respect to the Notes within the meaning of the Rule. The City acknowledges that its undertaking pursuant to the Rule described under this heading is intended to be for the benefit of the holders of the Notes (including holders of beneficial interests in the Notes). The right of holders of the Notes to enforce the provisions of the undertaking will be limited to a right to obtain specific enforcement of the City's obligations under its material event notices undertaking and any failure by the City to comply with the provisions of the undertaking will neither be a default with respect to the Notes nor entitle any holder of the Notes to recover monetary damages.

The City reserves the right to modify from time to time the specific types of information provided or the format of the presentation of such information, to the extent necessary or appropriate in the judgment of the City; provided that the City agrees that any such modification will be done in a manner consistent with the Rule.

An "Undertaking to Provide Notice of Events" to this effect shall be provided to the purchaser(s) at closing.

The following table sets forth the annual filings for each of the five preceding fiscal years.

<u>Fiscal Year Ending December 31:</u>	<u>Financial & Operating Information</u>	<u>Audited Financial Statements</u>
2013	06/30/2014	11/12/2014
2014	06/29/2015	01/26/2016
2015	06/30/2016	06/29/2016*
2016	06/27/2017	12/18/2017
2017	06/14/2018	08/14/2018

* Audited financial statements for FY 2015 were not completed. Unaudited Financial Report Update Document filed on June 29, 2016.

On August 30, 2016, the City filed an event notice for the failure to file certain rating changes of Assured Guaranty Municipal Corp. (AGM) in 2011, 2013 and 2014. On August 30, 2016, the City filed an event notice for the failure to file the annual audited financial statements within 60 days after they were available for the fiscal years ending December 31, 2011 through December 31, 2014.

Tax Levy Limitation Law

On June 24, 2011, Chapter 97 of the Laws of 2011 was signed into law by the Governor (the "Tax Levy Limitation Law"). The Tax Levy Limitation Law applies to virtually all local governments, including school districts (with the exception of New York City, Yonkers, Syracuse, Rochester and Buffalo, the latter four of which are indirectly affected by applicability to their respective City). It also applies to independent special districts and to town and county improvement districts as part of their parent municipalities tax levies.

The Tax Levy Limitation Law restricts, among other things, the amount of real property taxes (including assessments of certain special improvement districts) that may be levied by or on behalf of a municipality in a particular year, beginning with fiscal years commencing on or after January 1, 2012. It expires on June 15, 2020 unless extended. Pursuant to the Tax Levy Limitation Law, the tax levy of a municipality cannot increase by more than the lesser of (i) two percent (2%) or (ii) the annual increase in the consumer price index ("CPI"), over the amount of the prior year's tax levy. Certain adjustments would be permitted for taxable real property full valuation increases due to changes in physical or quantity growth in the real property base as defined in Section 1220 of the Real Property Tax Law. A municipality may exceed the tax levy limitation for the coming fiscal year only if the governing body of such municipality first enacts, by at least a sixty percent vote of the total voting strength of the board, a local law (resolution in the case of fire districts and certain special districts) to override such limitation for such coming fiscal year only. There are exceptions to the tax levy limitation provided in the Tax Levy Limitation Law, including expenditures made on account of certain tort settlements and certain increases in the average actuarial contribution rates of the New York State and Local Employees' Retirement System, the Police and Fire Retirement System, and the Teachers' Retirement System. Municipalities are also permitted to carry forward a certain portion of their unused levy limitation from a prior year. Each municipality prior to adoption of each fiscal year budget must submit for review to the State Comptroller any information that is necessary in the calculation of its tax levy for each fiscal year.

The Tax Levy Limitation Law does not contain an exception from the levy limitation for the payment of debt service on either outstanding general obligation debt of municipalities or such debt incurred after the effective date of the Tax Levy Limitation Law (June 24, 2011).

While the Tax Levy Limitation Law may constrict an issuer's power to levy real property taxes for the payment of debt service on debt contracted after the effective date of said Tax Levy Limitation Law, it is clear that no statute is able (1) to limit an issuer's pledge of its faith and credit to the payment of any of its general obligation indebtedness or (2) to limit an issuer's levy of real property taxes to pay debt service on general obligation debt contracted prior to the effective date of the Tax Levy Limitation Law. Whether the Constitution grants a municipality authority to treat debt service payments as a constitutional exception to such statutory tax levy limitation outside of any statutorily determined tax levy amount is not clear.

Real Property Tax Rebate

Chapter 59 of the Laws of 2014 (“Chapter 59”) includes provisions which provide a refundable personal income tax credit to real property taxpayers in school districts and certain municipal units of government. Real property owners in school districts are eligible for this credit in the 2014 and 2015 taxable years of those property owners. Real property taxpayers in certain other municipal units of government are eligible for this credit in the 2015 and 2016 taxable years of those real property taxpayers. The eligibility of real property taxpayers for the tax credit in each year depends on such jurisdiction’s compliance with the provisions of the Tax Levy Limitation Law. School districts budgets must comply in their 2014-2015 and 2015-2016 fiscal years. Other municipal units of government must have their budgets in compliance for their 2015 and 2016 fiscal years. Such budgets must be within the tax cap limits set by the Tax Levy Limitation Law for the real property taxpayers to be eligible for this personal income tax credit. The affected jurisdictions include counties, cities (other than any city with a population of one million or more and its counties), towns, villages, school districts (other than the dependent school districts of New York City, Buffalo, Rochester, Syracuse and Yonkers, the latter four of which are indirectly affected by applicability to their respective city) and independent special districts.

Certain additional restrictions on the amount of the personal income tax credit are set forth in Chapter 59 in order for the tax cap to qualify as one which will provide the tax credit benefit to such real property taxpayers. The refundable personal income tax credit amount is increased in the second year if compliance occurs in both taxable years.

For the second taxable year of the program, the refundable personal income tax credit for real property taxpayers is additionally contingent upon adoption by the school district or municipal unit of a state approved “government efficiency plan” which demonstrates “three year savings and efficiencies of at least one per cent per year from shared services, cooperation agreements and/or mergers or efficiencies”.

Municipalities, school districts and independent special districts must provide certification of compliance with the requirements of the new provisions to certain state officials in order to render their real property taxpayers eligible for the personal tax credit.

While the provisions of Chapter 59 do not directly further restrict the taxing power of the affected municipalities, school districts and special districts, they do provide an incentive for such tax levies to remain within the tax cap limits established by the Tax Levy Limitation Law. The implications of this for future tax levies and for operations and services of the City are uncertain at this time.

An additional real property tax rebate program applicable solely to school districts was enacted by Chapter 20 of the Laws of 2015, signed into Law by Governor on June 26, 2015. The program applies in the years 2016 through 2019 and includes continued tax cap compliance.

SPECIAL PROVISIONS AFFECTING REMEDIES UPON DEFAULT

General Municipal Law Contract Creditors’ Provision. Each Bond when duly issued and paid for will constitute a contract between the City and the holder thereof. Under current law, provision is made for contract creditors of the City to enforce payments upon such contracts, if necessary, through court action. Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by the City upon any judgment or accrued claim against it on an amount adjudged due to a creditor shall not exceed nine per centum per annum from the date due to the date of payment. This provision might be construed to have application to the holders of the Bonds in the event of a default in the payment of the principal of and interest on the Bonds.

Execution/Attachment of Municipal Property. As a general rule, property and funds of a municipal corporation serving the public welfare and interest have not been judicially subjected to execution or attachment to satisfy a judgment, although judicial mandates have been issued to officials to appropriate and pay judgments out of certain funds or the proceeds of a tax levy. In accordance with the general rule with respect to municipalities, judgments against the City may not be enforced by levy and execution against property owned by the City.

Authority to File For Municipal Bankruptcy. The Federal Bankruptcy Code allows public bodies, such as municipalities, including the City, recourse to the protection of a Federal Court for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State or its emergency control board to file a petition under any provision of Federal bankruptcy law for the composition or adjustment of municipal indebtedness.

Constitutional Non-Appropriation Provision. There is in the Constitution of the State, Article VIII, Section 2, the following provision relating to the annual appropriation of monies for the payment of due principal of and interest on indebtedness of every county, city, town, village and school district in the State: "If at any time the respective appropriating authorities shall fail to make such appropriations, a sufficient sum shall be set apart from the first revenues thereafter received and shall be applied to such purposes. The fiscal officer of any county, city, town, village or school district may be required to set aside and apply such revenues as aforesaid at the suit of any holder of obligations issued for any such indebtedness." This constitutes a specific non-exclusive constitutional remedy against a defaulting municipality or school district; however, it does not apply in a context in which monies have been appropriated for debt service but the appropriating authorities decline to use such monies to pay debt service. However, Article VIII, Section 2 of the Constitution of the State also provides that the fiscal officer of any county, city, town, village or school district may be required to set apart and apply such revenues at the suit of any holder of any obligations of indebtedness issued with the pledge of the faith of the credit of such political subdivision. The Constitutional provision providing for first revenue set asides does not apply to tax anticipation notes, revenue anticipation notes or bond anticipation notes.

Default Litigation. In prior years, certain events and legislation affecting a holder's remedies upon default have resulted in litigation. While courts of final jurisdiction have upheld and sustained the rights of bondholders, such courts might hold that future events including financial crises as they may occur in the State and in political subdivisions of the State require the exercise by the State or its political subdivisions of emergency and police powers to assure the continuation of essential public services prior to the payment of debt service.

No Past Due Debt. No principal of or interest on City indebtedness is past due. The City has never defaulted in the payment of the principal of and interest on any indebtedness.

Section 3-a of the General Municipal Law provides, subject to exceptions not pertinent, that the rate of interest to be paid by a municipality upon any judgment or accrued claim against such municipality shall not exceed nine per centum per annum. This provision might be construed to have application to the holders of the Bonds in the event of a default in the payment of the principal of or interest on the Bonds.

As is the general rule with respect to municipal corporations, judgments against the City may not be enforced by levy and execution against City property.

Recent amendments to the Federal Bankruptcy Act have the effect of facilitating recourse to the protection of a Federal Court by public bodies for the purpose of adjusting outstanding indebtedness. Section 85.80 of the Local Finance Law contains specific authorization for any municipality in the State to file a petition with any United States District Court or Court of Bankruptcy under any provision of Federal law for the composition or adjustment of municipal indebtedness.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of the City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of such obligations.

As a result of the Court of Appeals decision, the constitutionality of that portion of Title 6-A of the Local Finance Law enacted at the 1975 Extraordinary Session of the State Legislature, authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the City.

State Debt Moratorium Law

There are separate State law provisions regarding debt service moratoriums enacted into law in 1975.

At the Extraordinary Session of the State Legislature held in November, 1975, legislation was enacted which purported to suspend the right to commence or continue an action in any court to collect or enforce certain short-term obligations of The City of New York. The effect of such act was to create a three-year moratorium on actions to enforce the payment of such obligations. On November 19, 1976, the Court of Appeals, the State's highest court, declared such act to be invalid on the ground that it violates the provisions of the State Constitution requiring a pledge by such City of its faith and credit for the payment of obligations.

As a result of the Court of Appeals decision in Flushing National Bank v. Municipal Assistance Corporation for the City of New York, 40 N.Y.2d 731 (1976), the constitutionality of that portion of Title 6-A of Article 2 of the Local Finance Law enacted at the 1975 Extraordinary Session of the State legislature, as described below, authorizing any county, city, town or village with respect to which the State has declared a financial emergency to petition the State Supreme Court to stay the enforcement against such municipality of any claim for payment relating to any contract, debt or obligation of the municipality during the emergency period, is subject to doubt. In any event, no such emergency has been declared with respect to the City.

Right of Municipality or State to Declare a Municipal Financial Emergency and Stay Claims Under State Debt Moratorium Law. The State Legislature is authorized to declare by special act that a state of financial emergency exists in any county, city, town or village. (The provision does not by its terms apply to school districts or fire districts.) In addition, the State Legislature may authorize by special act establishment of an "emergency financial control board" for any county, city, town or village upon determination that such a state of financial emergency exists. Thereafter, unless such special act provides otherwise, a voluntary petition to stay claims may be filed by any such municipality (or by its emergency financial control board in the event said board requests the municipality to petition and the municipality fails to do so within five days thereafter). A petition filed in supreme court in county in which the municipality is located in accordance with the requirements of Title 6-A of the Local Finance Law ("Title 6-A") effectively prohibits the doing of any act for ninety days in the payment of claims, against the municipality including payment of debt service on outstanding indebtedness.

This includes staying the commencement or continuation of any court proceedings seeking payment of debt service due, the assessment, levy or collection of taxes by or for the municipality or the application of any funds, property, receivables or revenues of the municipality to the payment of debt service. The stay can be vacated under certain circumstances with provisions for the payment of amounts due or overdue upon a demand for payment in accordance with the statutory provisions set forth therein. The filing of a petition may be accompanied with a proposed repayment plan which upon court order approving the plan, may extend any stay in the payment of claims against the municipality for such "additional period of time as is required to carry out fully all the terms and provisions of the plan with respect to those creditors who accept the plan or any benefits thereunder." Court approval is conditioned, after a hearing, upon certain findings as provided in Title 6-A.

A proposed plan can be modified prior to court approval or disapproval. After approval, modification is not permissible without court order after a hearing. If not approved, the proposed plan must be amended within ten days or else the stay is vacated and claims including debt service due or overdue must be paid. It is at the discretion of the court to permit additional filings of amended plans and continuation of any stay during such time. A stay may be vacated or modified by the court upon motion of any creditor if the court finds after a hearing, that the municipality has failed to comply with a material provision of an accepted repayment plan or that due to a "material change in circumstances" the repayment plan is no longer in compliance with statutory requirements.

Once an approved repayment plan has been completed, the court, after a hearing upon motion of any creditor, or a motion of the municipality or its emergency financial control board, will enter an order vacating any stay then in effect and enjoining of creditors who accepted the plan or any benefits thereunder from commencing or continuing any court action, proceeding or other act described in Title 6-A relating to any debt included in the plan.

Title 6-A requires notice to all creditors of each material step in the proceedings. Court determinations adverse to the municipality or its financial emergency control board are appealable as of right to the appellate division in the judicial department in which the court is located and thereafter, if necessary, to the Court of Appeals. Such appeals stay the judgment or appealed from and all other actions, special proceedings or acts within the scope of Section 85.30 of Title 6-A pending the hearing and determination of the appeals.

Whether Title 6-A is valid under the Constitutional provisions regarding the payment of debt service is not known. However, based upon the decision in the Flushing National Bank case described above, its validity is subject to doubt.

While the State Legislature has from time to time adopted legislation in response to a municipal fiscal emergency and established public benefit corporations with a broad range of financial control and oversight powers to oversee such municipalities, generally such legislation has provided that the provisions of Title 6-A are not applicable during any period of time that such a public benefit corporation has outstanding indebtedness issued on behalf of such municipality.

Fiscal Stress and State Emergency Financial Control Boards. Pursuant to Article IX Section 2(b)(2) of the State Constitution, any local government in the State may request the intervention of the State in its “property, affairs and government” by a two-thirds vote of the total membership of its legislative body or on request of its chief executive officer concurred in by a majority of such membership. This has resulted in the adoption of special acts for the establishment of public benefit corporations with varying degrees of authority to control the finances (including debt issuance) of the cities of Buffalo, Troy and Yonkers and the County of Nassau. The specific authority, powers and composition of the financial control boards established by these acts varies based upon circumstances and needs. Generally, the State legislature has granted such boards the power to approve or disapprove budget and financial plans and to issue debt on behalf of the municipality, as well as to impose wage and/or hiring freezes and approve collective bargaining agreements in certain cases. Implementation is left to the discretion of the board of the public benefit corporation. Such a State financial control board was first established for New York City in 1975. In addition, on a certificate of necessity of the governor reciting facts which in the judgment of governor constitute an emergency requiring enactment of such laws, with the concurrences of two-thirds of the members elected in each house of the State legislature the State is authorized to intervene in the “property, affairs and governments” of local government units. This occurred in the case of the County of Erie in 2005. The authority of the State to intervene in the financial affairs of local government is further supported by Article VIII, Section 12 of the Constitution which declares it to be the duty of the State legislature to restrict, subject to other provisions of the Constitution, the power of taxation, assessment, borrowing money and contracting indebtedness and loaning the credit of counties, cities, towns and villages so as to prevent abuses in taxation and assessment and in contracting indebtedness by them. In 2013, the State established a new state advisory board to assist counties, cities, towns and villages in financial distress. The Financial Restructuring Board for Local Governments (the “FRB”), is authorized to conduct a comprehensive review of the finances and operations of any such municipality deemed by the FRB to be fiscally eligible for its services upon request by resolution of the municipal legislative body and concurrence of its chief executive. The FRB is authorized to make recommendations for, but cannot compel improvement of fiscal stability, management and delivery of municipal services, including shared services opportunities and is authorized to offer grants and/or loans of up to \$5,000,000 through a Local Government Performance and Efficiency Program to undertake certain recommendations. If a municipality agrees to undertake the FRB recommendations, it will be automatically bound to fulfill the terms in order to receive the aid.

The FRB is also authorized to serve as an alternative arbitration panel for binding arbitration.

Although from time to time, there have been proposals for the creation of a statewide financial control board with broad authority over local governments in the State, the FRB does not have emergency financial control board powers to intervene such as the public benefit corporations established by special acts as described above.

Several municipalities in the State are presently working with the FRB. The City is presently not working with the FRB nor does it expect to do so in the foreseeable future. School districts and fire districts are not eligible for FRB assistance.

CITY OF WATERVLIET

Description

The City, which encompasses an area of about 1.4 square miles and has a population of 10,241 according to the 2015 U.S. Census, is located in the eastern portion of Albany County, about 4 miles north of the City of Albany. The City is primarily residential with some commercial and industrial development. The City has its own water and sanitary sewer systems as well as its own police and fire departments. The City Water System has a 450 acre impoundment containing 1.5 billion gallons of water and a productive capacity of 10 to 12 million gallons per day of which approximately 7 million gallons is used. The impoundment, approximately 15 miles from the City, is set within a 690 acre parcel, four miles west of the City of Albany and five miles south of the City of Schenectady. The parcel is situated in the Town of Guilderland, which buys water from the City on a long term contract with contractual increases annually. Residences consist primarily of single family homes, with some garden apartments; commercial activity is concentrated in the central business district of the City. The City is the site of the Watervliet Arsenal, which has been continuously manufacturing large caliber artillery pieces since the early nineteenth century. It is administered by the United States Army Material Command, which manufactures substantially all of the heavy conventional artillery required by the military, and employs approximately 650 civilians. Residents find employment in the City or commute to State offices in

Albany or other occupations in the Capital District area. Opportunities for higher education located nearby include the State University at Albany, Union College in Schenectady and Rensselaer Polytechnic Institute in Troy. Highway facilities that traverse the City include Interstate Route 787 and New York State Routes 155, 32 and 2.

Governmental Organization

The City adopted the Council-Manager Plan in 1921 and is governed by a three-member Council - a mayor and two councilpersons. Each member, including the Mayor, is elected for a four-year term by a city-wide vote. The terms are staggered such that the terms of no more than two members expire together. The Council appoints a General Manager, who is responsible for the day-to-day operations in all departments of the City including the police, fire, water and public works departments. The City Manager also has a statutory requirement to produce the City budget each year. The Mayor presides at Council meetings and ceremonial occasions and provides the Council leadership on policy decisions. A Director of Finance, appointed by the General Manager, is responsible for the administration of the City's financial affairs. The Director of Finance also acts as the City Treasurer. The Watervliet City School District, which is almost coterminous with the City, is independently governed.

The Director of Finance is the chief fiscal officer of the City. The duties of the Director of Finance include, among other things, administration and general supervision of all accounting and bookkeeping functions and departmental operations.

Employees

The City provides services through approximately 80 employees. Some of such employees are represented by organized labor as follows:

<u>Employee Organization</u>	<u>Term of Contract</u>	<u>Est. No. of Members</u>
IAFF, Local 590 (Firefighters) ^a	12/31/2018	25
Watervliet PBA (Police)	12/31/2022	25
CSEA	12/31/2020	17

a.: Currently in negotiations

DEMOGRAPHIC AND STATISTICAL INFORMATION

The following tables present certain comparative demographic and statistical information regarding the City, the County, the State and the United States.

Population

<u>Year</u>	<u>City of Watervliet</u>	<u>County of Albany</u>	<u>State of New York</u>
1990	11,051	292,594	17,990,455
2000	10,207	294,565	18,976,457
2010	10,313	304,032	19,229,752
2016	10,207	307,891	19,697,457

Source: U.S. Bureau of the Census.

Per Capita Income

	<u>Per Capita Money Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
City of Watervliet	\$13,007	\$18,294	\$22,469	\$25,225
County of Albany	16,363	23,345	30,863	33,888
State of New York	16,501	23,389	30,791	34,212

Source: U.S. Dept. of Commerce, Bureau of the Census.

a. Note: Based on American Community Survey 1-Year Estimate (2016)

Median Family Income

	<u>Median Household Income</u>			
	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2016^a</u>
City of Watervliet	\$33,616	\$38,735	\$41,375	\$48,994
County of Albany	33,358	42,935	56,090	60,904
State of New York	32,965	43,393	55,603	60,741

Source: U.S. Department of Commerce, Bureau of the Census.

a. Note: Based on American Community Survey 1-Year Estimate (2016)

Unemployment Rate Statistics

Unemployment statistics are not available for the City as such. The smallest areas for which such statistics are available (which includes the City) is the County of Albany. The information set forth below with respect to such County and the Albany, Schenectady, Troy (SMSA) is included for information purposes only. It should not be inferred from the inclusion of such data in this Statement that the County or the Albany, Schenectady, Troy (SMSA) is necessarily representative of the City or vice versa.

<u>Annual Averages:</u>	<u>Albany Schnectady Troy (SMSA)</u>	<u>Albany County (%)</u>	<u>New York State (%)</u>
2013	6.6	6.4	7.7
2014	5.3	5.2	6.4
2015	4.5	4.4	5.3
2016	4.1	4.0	4.8
2017	4.2	4.2	4.6
2018 (8 Month Average)	4.3	4.1	4.4

Source: Department of Labor, State of New York

INDEBTEDNESS OF THE CITY

Constitutional Requirements

The New York State Constitution limits the power of the City (and other municipalities and school districts of the State) to issue obligations and to otherwise contract indebtedness. Such constitutional and statutory limitations include the following, in summary form, and are generally applicable to the City and the Notes.

Purpose and Pledge. The City shall not give or loan any money or property to or in aid of any individual or private corporation or private undertaking or give or loan its credit to or in aid of any of the foregoing or any public corporation.

The City may contract indebtedness only for a City purpose and shall pledge its faith and credit for the payment of principal of and interest thereon.

Payment and Maturity. Except for certain short-term indebtedness contracted in anticipation of taxes, indebtedness shall be paid in annual installments commencing no later than two years after the date such indebtedness shall have been contracted and ending no later than the expiration of the period of probable usefulness of the object or purpose as determined by statute or in the alternative the weighted average period of probable usefulness of the several purposes for which it has contracted; and no installment may be more than fifty per centum in excess of the smallest prior installment, unless the City has authorized the issuance of indebtedness having substantially level or declining annual debt service. The City is required to provide an annual appropriation for the payment of interest due during the year on its indebtedness and for the amounts required in such year for amortization and redemption of its serial bonds and bond anticipation notes.

General. The City is further subject to constitutional limitation by the general constitutionally imposed duty on the State Legislature to restrict the power of taxation, assessment, borrowing money, contracting indebtedness and loaning the credit of the City so as to prevent abuses in the exercise of such powers; however, as has been noted under "Nature of Obligation", the State Legislature is prohibited by a specific constitutional provision from restricting the power of the City to levy taxes on real estate for the payment of interest on or principal of indebtedness theretofore contracted. However, the Tax Levy Limitation Law imposes a statutory limitation on the City's power to increase its annual tax levy. The amount of such increase is limited by the formulas set forth in the Tax Levy Limitation Law. See "THE NOTES - Tax Levy Limitation Law," herein.

Statutory Procedure

In general, the State Legislature has authorized the power and procedure for the City to borrow and incur indebtedness subject, of course, to the constitutional and provisions set forth above. The power to spend money, however, generally derives from other law, including the General City Law and the General Municipal Law.

Pursuant to the Local Finance Law, the City authorizes the incurrence of indebtedness by the adoption of a bond ordinance approved by at least two-thirds of the members of the City Council, the finance board of the City.

The Local Finance Law also provides a twenty-day statute of limitations after publication of a bond resolution which, in effect, estops thereafter legal challenges to the validity of obligations authorized by such bond resolution except for alleged constitutional violations. The City is in compliance with such requirement with respect to the bond ordinance authorizing the issuance of the Notes.

Each bond resolution usually authorizes the construction, acquisition or installation of the object or purpose to be financed, sets forth the plan of financing and specifies the maximum maturity of the bonds and notes subject to the legal (Constitution, Local Finance Law and case law) restrictions relating to the period of probable usefulness with respect thereto.

Each bond resolution also authorizes the issuance of bond anticipation notes prior to the issuance of serial bonds. Statutory law in New York permits notes to be renewed each year provided that principal is amortized and provided that such renewals do not (with certain exceptions) extend more than five years beyond the original date of borrowing. However, notes issued in anticipation of the sale of serial bonds for assessable improvements are not subject to such five year limit and may be renewed subject to annual reductions of principal for the entire period of probable usefulness of the purpose for which such notes were originally issued. See "Payment and Maturity" under "Constitutional Requirements".

In addition, under each bond resolution, the City Council may delegate, and has delegated, power to issue and sell bonds, to the Director of Finance, the chief fiscal officer of the City.

In general, the Local Finance Law contains similar provisions providing the City with power to issue general obligation revenue anticipation notes, tax anticipation notes, deficiency notes and budget notes.

Debt Limit. The City has the power to contract indebtedness for any City purpose so long as the principal amount thereof shall not exceed seven per centum of the average full valuation of taxable real estate of the City and subject to certain enumerated exclusions and deductions such as water and certain sewer facilities and cash or appropriations for current debt service. The constitutional and statutory method for determining the full valuation is by dividing the assessed valuation of taxable real estate by the respective equalization rates assigned to each assessment roll. Such equalization rates are the ratios which each of such assessed valuations bear to the respective full valuation of such year, as assigned by the Office of Real Property Tax Services. The State Legislature is required to prescribe the manner by which such ratios shall be determined. Average full valuation is determined by adding the full valuations for the most recently completed assessment roll and the four immediately preceding assessments rolls and dividing the resulting sum of such addition by five.

There is no constitutional limitation on the amount that may be raised by the City by tax on real estate in any fiscal year to pay principal and interest on all indebtedness. However, the Tax Levy Limitation Law, imposes a statutory limitation on the power of the City to increase its annual tax levy. The amount of such increases is limited by the formulas set forth in the Tax Levy Limitation Law. See “THE NOTES - Tax Levy Limitation Law,” herein.

Trend of Outstanding Debt

	Fiscal Year Ending December 31:				
	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Outstanding Debt:					
Bonds	\$7,225,000	\$6,585,000	\$5,930,000	\$7,763,862	\$7,005,000
BANs	495,000	1,180,000	1,265,862	1,100,862	920,000
Other Notes	-	-	-	-	2,500,000
	<u>\$7,720,000</u>	<u>\$7,765,000</u>	<u>\$7,195,862</u>	<u>\$8,864,724</u>	<u>\$10,425,000</u>

Details of Short-Term Indebtedness Outstanding
(As of June 20, 2018)

As of date hereof, the City has bond anticipation notes outstanding in the amount of \$920,000, which mature October 25, 2018. Such amount will be redeemed at maturity with proceeds of the Notes.

Debt Service Requirements - Outstanding Bonds

Fiscal Year Ending <u>December 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$780,000	\$240,965	\$1,020,965
2019	805,000	214,161	1,019,161
2020	830,000	185,752	1,015,752
2021	570,000	159,540	729,540
2022	475,000	138,430	613,430
2023	495,000	118,868	613,868
2024	505,000	98,384	603,384
2025	330,000	81,340	411,340
2026	340,000	67,590	407,590
2027	355,000	53,340	408,340
2028	370,000	38,465	408,465
2029	130,000	29,215	159,215
2030	135,000	25,965	160,965
2031	140,000	22,590	162,590
2032	140,000	19,090	159,090
2033	145,000	15,590	160,590
2034	150,000	11,965	161,965
2035	155,000	8,215	163,215
2036	155,000	4,185	159,185
Totals	<u>\$7,005,000</u>	<u>\$1,533,651</u>	<u>\$8,538,651</u>

Computation of Debt Limit and Calculation of Net Debt Contracting Margin
(As of October 10, 2018)

<u>Fiscal Year Ending December 31:</u>	<u>Assessed Valuation</u>	<u>State Equalization Rate (%)</u>	<u>Full Valuation</u>
2014	\$ 381,204,956	100.00	\$ 381,204,956
2015	382,440,439	100.00	382,440,439
2016	388,587,699	100.00	388,587,699
2017	381,020,254	100.00	381,020,254
2018	377,163,908	100.00	<u>377,163,908</u>
Total Five Year Full Valuation			\$ 1,910,417,256
Average Five Year Full Valuation			382,083,451
Debt Limit - 7% of Average Full Valuation			26,745,842
Inclusions:			
Outstanding Bonds			\$6,225,000
Bond Anticipation Notes			<u>920,000</u>
Total Inclusions			<u>\$ 7,145,000</u>
Exclusions:			
Water Debt			\$ 1,353,299
Appropriations for Bonds			0
Appropriations for Notes			<u>0</u>
Total Exclusions			\$ 1,353,299
Total Net Indebtedness Before the Issuance of Notes			<u>\$ 5,791,701</u>
The Notes			\$ 2,970,000
Less: BANs Being Redeemed by The Notes			<u>920,000</u>
Total Net Effect of the Notes			\$ 2,050,000
Total Net Indebtedness After Issuing the Notes			\$ 7,841,701
Net Debt Contracting Margin			<u><u>\$ 18,904,141</u></u>
Percent of Debt Limit Exhausted			29.32%

Calculation of Estimated Overlapping and Underlying Indebtedness

<u>Overlapping Units</u>	<u>Date of Report</u>	<u>Percentage Applicable (%)</u>	<u>Applicable Total Indebtedness</u>	<u>Applicable Net Indebtedness</u>
Albany County	03/22/18	01.82	\$5,379,713	\$4,964,468
Watervliet City SD	06/30/17	83.98	<u>28,918,513</u>	<u>3,181,036</u>
Totals			<u><u>\$34,298,226</u></u>	<u><u>\$8,127,504</u></u>

Sources: Annual Reports of the respective units for the most recently completed fiscal year or more recently published Official Statements.

Debt Ratios

	<u>Amount</u>	<u>Per Capita^a</u>	<u>Percentage of Full Value (%)^b</u>
Total Direct Debt	\$7,145,000	\$700	1.894
Net Direct Debt	5,791,701	567	1.536
Total Direct & Applicable Total Overlapping Debt	41,443,226	4,060	10.988
Net Direct & Applicable Net Overlapping Debt	13,919,205	1,364	3.690

a. The current population of the City is 10,207 (2016 US Census).

b. The full valuation of taxable real property in the City for 2018 is \$377,163,908

Authorized But Unissued Debt

The following represents the City's authorized but unissued debt outstanding.

<u>Date of Authorization</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Authorized But Issued</u>
5/4/2017	Normanskill Hydro Project	\$ 1,000,000	\$ 900,000
4/19/2018	Acquisition of Vehicles	109,171	109,171
4/19/2018	Acquisition of Vehicles	140,829	140,829
9/3/2015	Water System Improvements	<u>5,000,000</u>	<u>1,800,000</u>
	TOTAL	<u><u>\$ 6,250,000</u></u>	<u><u>\$ 2,950,000</u></u>

a. A portion of such authorized but unissued amount in the amount of \$2,050,000 will be financed by the issuance of the Notes. See "Authorization and Purpose" herein.

FINANCES OF THE CITY

Financial Statements and Accounting Procedures

The City maintains its financial records in accordance with the Uniform System of Accounts for Cities prescribed by the State Comptroller. The financial records of the City are audited by independent accountants. The last such audit made available for public inspection covers the fiscal year ended December 31, 2017. In

addition, the financial affairs of the City are subject to periodic compliance review by the Office of the State Comptroller (“OSC”) to ascertain whether the City has complied with the requirements of various State and Federal statutes. The City prepares an Annual Financial Report Update Document and is filed with the OSC on or before April 30th each year.

The Statements of Revenues, Expenditures and Changes in Fund Equity of the General Fund, and the Special Revenue Fund for the years 2013 to 2017 and the 2017 and 2018 Budget are presented in Appendix A.

Fund Structure and Accounts

The City utilizes fund accounting to record and report its various service activities. A fund represents both a legal and an accounting entity which segregates the transactions of specific programs in accordance with special regulations, restrictions or limitations.

There are three basic fund types: (1) governmental funds that are used to account for basic services and capital projects; (2) proprietary funds that account for operations of a commercial nature; and, (3) fiduciary funds that account for assets held in a trustee capacity. Account groups, which do not represent funds, are used to record fixed assets and long-term obligations that are not accounted for in a specific fund.

The City maintains the following governmental funds: General Fund, Water Fund, Sewer Fund, Special Grant Fund, Watervliet Industrial Development Agency Fund, Debt Service Fund and Capital Projects Fund. The General Fund is the operating fund of the City and accounts for general tax revenues, miscellaneous receipts not allocated by law or contractual agreement to other funds, general operating expenses, and fixed charges. The Water Fund is used to account for sewer operations which are not required to be accounted for an enterprise basis. The Special Grant Fund is used to account for Community Development Block Grants, Urban Development Action Grants and other community development programs. The Watervliet Industrial Development Agency Fund is used to account for industrial development. The Debt Service Fund is used to account for financial resources which are being accumulated for payment of principal and interest on long-term, indebtedness. The Capital Projects Fund is used to account for moneys used for the acquisition of capital facilities and improvements. The City does not utilize any funds of a proprietary nature. Fiduciary funds consist of the Trust and Agency Fund.

Basis of Accounting

The City maintains its records and reports on the modified accrual basis of accounting for recording transactions in its Governmental Funds. Under this method, (1) revenues are recorded when received in cash except for revenues which are material and susceptible to accrual (measurable and available to finance the year’s operations) which are recorded when earned, and (2) expenditures, other than retirement plan contributions, vacation and sick pay and accrued interest on bond anticipation notes and general long-term debt, are recorded at the time liabilities are incurred.

Investment Policy

Pursuant to the statutes of the State of New York and its adopted Investment Policy, the City is permitted to temporarily invest moneys which are not required for immediate expenditures, with the exception of moneys the investment of which is otherwise provided for by law, in the following investments: (1) special time deposit accounts in, or certificates of deposit issued by a bank or trust company located and authorized to do business in the State, provided however, that such time deposit account or certificate of deposit is payable within such time as the proceeds shall be needed to meet the expenditures for which such moneys were obtained and provided further that such time deposit account or certificate of deposit, in excess of the amount insured under the Federal Deposit Insurance Act, be secured by either a pledge of eligible securities, an eligible surety bond or an eligible letter of credit, as those terms are defined in the law; (2) obligations of the United States of America; (3) obligations guaranteed by agencies of the United States of America where the payment of principal and interest are guaranteed by the United States of America; (4) obligations of the State of New York; (5) with permission of the State Comptroller, in obligations issued by any municipality or school district or district corporation; (6) obligations of other public corporations whose specific enabling legislation authorizes such investments; (7) certificates at participation issued pursuant to section 109-b of the General Municipal Law; and (8) in the case of moneys held in certain reserve funds established by the City pursuant to law, in obligations of the City. Any investments made by the City pursuant to law are required to be payable or redeemable at the option of the City

within such times as the proceeds will be needed to meet expenditures for purposes for which the moneys were provided and, in the case of obligations purchased with the proceeds of bonds or notes, shall be payable or redeemable in any event, at the option of the owner, within two years of the date of purchase. These statutes also require that the City's investments, unless registered or inscribed in the name of the City, must be purchased through, delivered to and held in custody of a bank or trust company in the State. All such investments held in the custody of a bank or trust company must be held pursuant to a written custodial agreement as that term is defined in the law.

Collateral is required for demand deposit, money market accounts and certificates of deposit not covered by Federal deposit insurance and the eligible securities utilized for such collateral must be held by the depository or by a third party financial institution, pursuant to security and custodial agreements. Obligations that may be pledged as collateral are obligations of the United States and its agencies and obligations of New York State and its municipalities and school districts.

Budgetary Procedures

The City expenditures during each fiscal year are made pursuant to budgets for the City. The General Manager submits the budgets to the City Council by each December 1 for adoption of appropriations and any necessary tax levies after public hearings. The Council has the power to alter items included in the proposed budgets, as submitted, with the exception of estimate of revenues, expenditures for indebtedness, and the payment of judgments submitted by the General Manager. The City Charter requires the Council to levy taxes in an amount sufficient to balance the budget. Operating expenditures may not exceed appropriations during the fiscal year. The Council may however, authorize additional appropriations during the year, financed by 1) issuance of budget notes (subject to certain legal limitations), or upon recommendation by the General Manager, 2) unappropriated surplus or 3) unanticipated revenues. The City operates on a January 1 to December 31 fiscal year.

Financial Operations

The Director of Finance functions as the chief fiscal officer as provided in Section 2 of the Local Finance Law; in this role, the Director of Finance is responsible for the City's accounting and financial reporting activities. The Director of Finance is also the City's budget officer and must therefore prepare the annual tentative budget for submission to the City Board and is responsible for maintaining budgetary control during the year. Pursuant to Section 30 of the Local Finance Law, the Director of Finance has been authorized to issue or renew certain specific types of notes. As required by law, the Director of Finance must execute an authorizing certificate which then becomes a matter of public record.

The City Council, as a whole, serves as the finance board of the City and is responsible for authorizing, by resolution, all material financial transactions such as operating and capital budgets and bonded debt.

City finances are operated primarily through the General and Highway Funds. All real property taxes and most of the other City revenues are credited to these funds. Current operating expenditures are paid from these funds subject to available appropriations. The City also has water and sewer districts, which are accounted for within separate funds. The primary sources of income for these districts comes from water and sewer rents that come due in May and November of each year. Capital projects and equipment purchases are accounted for in special capital projects funds. The City observes a calendar year (January 1 through December 31) for operating and reporting purposes.

Revenues

The City receives most of its revenues from real property taxes and assessments. A summary of such revenues and other financings sources for the last five fiscal years ending with December 31, 2016 may be found in the Statements of Revenues, Expenditures and Changes in Fund Balance in Appendix A hereto.

Real Property Taxes

See "Real Property Tax Information", herein.

State Aid

The City received approximately 15.52% of its total General Fund operating revenue from State aid in 2017 and expects to receive approximately 11.15% in 2018. There is no assurance, however, that State appropriations for aid to municipalities will continue, either pursuant to existing formulas or in any form whatsoever. The State is not constitutionally obligated to maintain or continue such aid and, in fact, the State has drastically reduced funding to municipalities and school districts in the last several years in order to balance its own budget. The following table sets forth the percentage of the City's General Fund revenue comprised of State Aid for each of the fiscal years 2013 through 2017, and budgeted for 2018.

<u>Fiscal Year Ending</u> <u>December 31:</u>	<u>Total Revenue</u>	<u>State Aid</u>	<u>State Aid to</u> <u>Revenues (%)</u>
2013	\$10,332,177	\$1,381,645	13.37
2014	10,963,515	1,286,225	11.73
2015	10,941,421	1,301,591	11.90
2016	10,809,196	1,438,383	13.31
2017	11,438,577	1,775,444	15.52
2018 (Budgeted)	11,399,578	1,270,693	11.15

Expenditures

The major categories of expenditure for the City are General Government Support, Public Safety, Transportation, Culture and Recreation, Employee Benefits and Debt Service. A summary of the expenditures for the five most recently completed fiscal years and the estimated expenditures for the current fiscal year may be found in Appendix A - Financial Information.

The State Comptroller's Fiscal Stress Monitoring System and OSC Compliance Reviews

The New York State Comptroller has reported that New York State's school districts and municipalities are facing significant fiscal challenges. As a result, the Office of the State Comptroller has developed a Fiscal Stress Monitoring System ("FSMS") to provide independent, objectively measured and quantifiable information to school districts and municipal officials, taxpayers and policy makers regarding the various levels of fiscal stress under which the State's school districts and municipalities are operating.

The fiscal stress scores are based on financial information submitted as part of each school ST-3 report filed with the State Education Department annually, and each municipality's annual report filed with the Office of the State Comptroller (OSC). Using financial indicators that include year-end fund balance, cash position and patterns of operating deficits, the system creates an overall fiscal stress score which classifies whether a school district or municipality is in "significant fiscal stress", in "moderate fiscal stress," as "susceptible to fiscal stress" or "no designation". Entities that do not accumulate the number of points that would place them in a stress category will receive a financial score but will be classified in a category of "no designation." This classification should not be interpreted to imply that the entity is completely free of fiscal stress conditions. Rather, the entity's financial information, when objectively scored according to the FSMS criteria, did not generate sufficient points to place them in one of the three established stress categories.

The most current applicable report of OSC designates the City as "Significantly Stressed" (Fiscal Score: 69.2%). More information on the FSMS may be obtained from the Office of the State Comptroller.

In addition, OSC helps local government officials manage government resources efficiently and effectively. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through its audits, which identify opportunities for improving operations and governance. There has been no such audit for the City in the last five years. Reference to this website implies no warranty of accuracy of information therein.

Pension Systems

Substantially all employees of the City are members of the New York State and Local Employees' Retirement System ("ERS") or the State and Local Police and Fire Retirement System ("PFRS" and together with ERS, the "Retirement System"). The Retirement System is a cost-sharing multiple public employer retirement system. The obligation of employers and employees to contribute and the benefits to employees are governed by the New York State Retirement System and Social Security Law (the "Retirement System Law"). The Retirement System offers a wide range of plans and benefits which are related to years of service and final average salary, vesting of retirement benefits, death and disability benefits and optional methods of benefit payments. All benefits generally vest after five years of credited service, except for "Tier 6" employees, as discussed below, whose benefits vest after ten years of credited service. The Retirement System Law generally provides that all participating employers in the Retirement System are jointly and severally liable for any unfunded amounts. Such amounts are collected through annual billings to all participating employers. Generally, all employees, except certain part-time employees, participate in the Retirement System. The Retirement System is non-contributory with respect to members hired prior to July 27, 1976. All members hired on or after July 27, 1976 and before January 1, 2010 must contribute three percent of their gross annual salary towards the costs of retirement programs until they attain ten years in the Retirement System, at such time contributions become voluntary. On December 10, 2009, then Governor Paterson signed into law the creation of a new Tier 5, which is effective for new ERS employees hired on or after January 1, 2010. New ERS employees in Tier 5 contribute 3% of their salaries. There is no provision for these contributions to cease for Tier 5 employees after a certain period of service.

Pension reform legislation changed the billing cycle for employer contributions to the ERS retirement system to match budget cycles of the City. Under the previous method, the City was not provided with required payment until after the budget was implemented. Under the reforms implemented, the employer contribution for a given fiscal year is based on the value of the pension fund on the prior April 1, instead of the following April 1. As a result, the City is notified of and can include the actual cost of the employer contribution in its budget. Legislation also required a minimum payment of 4.5% of payroll each year, including years in which investment performance of the fund would make a lower employer contribution possible.

In addition, the pension payment date for all local governments was changed from December 15 to February 1 and permits the legislative body of a municipality to establish a retirement contribution reserve fund for the purpose of financing retirement contributions in the future. The New York State Retirement System has advised the City that municipalities can elect to make employer contribution payments in the December or the following February, as required. If such payments are made in the December prior to the scheduled payment date in February, such payments may be made at a discount amount.

On March 16, 2012, Governor Cuomo signed into law the new Tier 6 pension program, effective for new ERS employees hired after April 1, 2012. The Tier 6 legislation provides for increased employee contribution rates of between 3% and 6%, an increase in the retirement age from 62 years to 63 years, a readjustment of the pension multiplier, and a change in the time period for final average salary calculation from 3 years to 5 years. Tier 6 employees will vest in the system after ten years of employment and will continue to make employee contributions throughout employment.

Due to significant capital market declines in the past, the State's Retirement System portfolio has experienced negative investment performance and severe downward trends in market earnings. As a result of the foregoing, the employer contribution rate for the State's Retirement System continues to be higher than the minimum contribution rate established in the past. The State calculates contribution amounts based upon a five-year rolling average. As a result, contribution rates are expected to remain higher than the minimum contribution rates set by past legislation. To mitigate the expected increases in the employer contribution rate, various forms of legislation has been enacted that would permit local governments to borrow a portion of their required payments from the State pension plan.

Most recently, in Spring 2013, the State and ERS approved a Stable Contribution Option ("SCO"), which modified its existing SCO adopted in 2010, that gives municipalities the ability to better manage the spikes in Actuarially Required Contribution rates ("ARCs"). The plan allows municipalities to pay the SCO amount in lieu of the ARC amount.

The primary purpose of the SCO plans is to reduce the volatility of future pensions ARC. However, although the pension contribution rates under this program would reduce near-term payments, it will require higher than normal contributions in later years. This City has elected to participate in the amortization programs.

The City is required to contribute an actuarially determined rate. The required contributions for the five most recently completed fiscal years are as follows:

Contributions to the Retirement Systems

Fiscal Year <u>Ending Dec 31:</u>	Employees Retirement <u>System</u>	Policemen's & Firemen's <u>Retirement System</u>	<u>Total</u>
2013	\$ 369,642	\$ 1,024,344	\$ 1,393,986
2014	392,498	1,202,993	1,595,491
2015	397,083	1,061,330	1,458,413
2016	330,774	1,111,543	1,442,317
2017	324,016	1,095,891	1,419,907

Other Post Employment Benefits

It should also be noted that the City provides post-retirement healthcare benefits to various categories of former employees. These costs may be expected to rise substantially in the future. There is now an accounting rule that will require governmental entities, such as the City, to account for post-retirement healthcare benefits as it accounts for vested pension benefits. GASB Statement No. 45 ("GASB 45") of the Governmental Accounting Standards Board ("GASB"), described below, requires such accounting.

GASB 45 and OPEB. OPEB refers to "other post-employment benefits," meaning other than pension benefits, disability benefits and OPEB consist primarily of health care benefits, and may include other benefits such as disability benefits and life insurance. Until now, these benefits have generally been administered on a pay-as-you-go basis and have not been reported as a liability on governmental financial statements.

GASB 45 will require municipalities and school districts to account for OPEB liabilities much like they already account for pension liabilities, generally adopting the actuarial methodologies used for pensions, with adjustments for the different characteristics of OPEB and the fact that most municipalities and school districts have not set aside any funds against this liability. Unlike GASB 27, which covers accounting for pensions, GASB 45 does not require municipalities or school districts to report a net OPEB obligation at the start.

Under GASB 45, based on actuarial valuation, an annual required contribution ("ARC") will be determined for each municipality or school district. The ARC is the sum of (a) the normal cost for the year (the present value of future benefits being earned by current employees) plus (b) amortization of the unfunded accrued liability (benefits already earned by current and former employees but not yet provided for), using an amortization period of not more than 30 years. If a municipality or school district contributes an amount less than the ARC, a net OPEB obligation will result, which is required to be recorded as a liability on its financial statements.

GASB 45 does not require that the unfunded liability actually be amortized nor that it be advance funded, only that the municipality or school district account for its unfunded accrued liability and compliance in meeting its ARC.

<u>Annual OPEB Cost and Net OPEB Obligation</u>	<u>Fiscal Year Ended December 31, 2017</u>
Annual required contribution (ARC)	\$2,397,934
Interest on net OPEB obligation	467,992
Less: Adjustments to ARC	<u>(663,462)</u>
Annual OPEB cost (expense)	2,202,464
Less: Contributions made	<u>(844,548)</u>
Increase in net OPEB obligation	1,357,916
Net OPEB obligation-beginning of year	<u>11,699,802</u>
Net OPEB obligation-end of year	<u><u>\$13,057,718</u></u>

- a. The Supplemental cost is the amortization of the Unfunded Actuarial Accrued Liability. The organization has elected to amortize this liability over 30 years, as permitted by GASB No. 45.
- b. Contributions were adjusted to the figure provided by the City.

The City's unfunded actuarial accrued OPEB liability could have a material adverse impact upon the City's finances and could force the City to reduce services, raise taxes or both. There is no authority in New York State to establish a reserve fund for the liability at this time.

Actuarial valuation will be required every 2 years for OPEB plans with more than 200 members, every 3 years if there are less than 200 members.

In June 2015, the Governmental Accounting Standards Board issued GASB Statement 75 ("GASB 75"), which when implemented will supersede and eliminate GASB 45. GASB 75 establishes new standards for recognizing and measuring OPEB liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Municipalities and school districts are required to account for OPEB within the financial statements rather than only noted in the footnotes as previously required by GASB 45. GASB 75 is required to be implemented for all municipalities and school districts in the fiscal year beginning after June 2017. Actuarial valuation will be required every two years for GASB 75.

REAL PROPERTY TAX INFORMATION

Constitutional Tax Margin - 2017

First Year Average Full Valuation	\$386,772,731
Tax Limit - 2% thereof	<u>7,735,455</u>
Total Levy for City Purposes	<u>\$4,231,153</u>
Exclusions	<u>887,431</u>
Tax Levy Subject to Limit	<u>\$3,343,722</u>
Constitutional Tax Margin	<u><u>\$4,391,733</u></u>
Percentage of Tax Limit Exhausted	43.23%

The following table sets forth the percentage of the City’s General Fund revenue (excluding other financing sources) comprised of real property taxes for each of the fiscal years 2013 through 2017, and budgeted for 2018.

Fiscal Year Ended December 31:	Total Revenue	Real Property Taxes	Real Property Taxes to Revenues (%)
2013	\$ 10,332,177	\$ 3,974,941	38.47
2014	10,963,515	3,994,266	36.43
2015	10,941,421	4,031,658	36.85
2016	10,809,196	4,147,982	38.37
2017	11,438,577	4,229,620	36.98
2018 (Budgeted)	11,399,578	4,853,385	42.58

Tax Collection Procedure

Taxes are paid in one installment due before January 31. If payment is not paid by January 31, a penalty of 1% per month is charged on the whole amount of the tax from January 31 to the date of payment. On October 1, an additional penalty of 5% is added to the unpaid taxes and penalties, and such unpaid taxes and penalties are turned over to Albany County for collection. The City retains the full amount of its tax levy and gives the balance and any uncollected taxes to the County. For a description of the law, see “THE NOTES - Tax Levy Limit Law,” herein.

Tax Levies and Rates Per \$1,000 Assessed Valuation

	Fiscal Year Ending December 31:				
	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Taxes on Roll	\$4,047,902	\$4,044,806	\$4,152,040	\$4,231,153	\$4,853,385
Assessed Valuation	\$381,204,956	\$382,440,439	\$388,587,699	\$381,020,254	\$377,163,908
City Tax Rates	\$10.48	\$10.58	\$10.68	\$11.10	\$12.87

Selected Listing of Large Taxable Properties

2017 Assessment Roll

<u>Name</u>	<u>Type</u>	<u>Assessed Valuation</u>
HM Highland Club	Apartments	\$11,300,000
National Grid	Utility	7,826,490
Elmwood Associates	Apartments	6,700,000
PCP Watervliet LLC	Commercial	5,200,000
Saint-GoBain	Industrial	4,200,000
Watervliet 2003, LLC.	Commercial	2,210,000
DP Partners, LP	Industrial	2,125,000
Watervliet Partners, L.P	Supermarket	1,600,000
Patterson Upste Rlty Hldg LLC	Commercial	1,400,000
Frey Charles A	Manufacturing	1,175,000
	Total ^a	<u><u>\$43,736,490</u></u>

a. Represents approximately 11.60% of the total taxable Assessed Valuation of the City for 2018.

Tax Cuts and Jobs Act of 2017

On December 22, 2017, President Trump signed into law the Tax Cuts and Jobs Act of 2017 (HR. 1, P.L. 115-97), making major changes to the Internal Revenue Code of 1986, as amended (the “Code”), most of which are effective in the 2018 tax year. The new Federal tax law makes extensive changes to Federal personal income taxes, including the deductibility of real property taxes, including real property taxes levied by the City. The State’s 2018-2019 Enacted Budget includes legislation decoupling certain linkages between Federal and local income tax, including increasing the opportunities for charitable contributions, and providing municipalities and school districts, including the City, with the option to establish local charitable funds that would accept charitable contributions and provide taxpayers with a credit against their property taxes. On May 23, 2018, the U.S. Department of the Treasury and the Internal Revenue Service issued a notice today stating that proposed regulations will be issued addressing the deductibility of state and local tax payments for federal income tax purposes. The notice also informs taxpayers that federal law controls the characterization of the payments for federal income tax purposes regardless of the characterization of the payments under state law. The City has no plans at this time to establish such a local charitable fund.

MARKET AND RISK FACTORS

The financial condition of the City as well as the market for the Notes could be affected by a variety of factors, some of which are beyond the City’s control. There can be no assurance that adverse events in the State or in other jurisdictions of the country, including, for example, the seeking by a municipality or large taxable property owner of remedies pursuant to the Federal Bankruptcy Code or otherwise, will not occur which might affect the market price of and the market for the Notes. If a significant default or other financial crisis should occur in the affairs of the State or any of its agencies or political subdivisions thereby impairing the acceptability of obligations issued by issuers within the State, both the ability of the City to arrange for additional borrowings, and the market for and market value of outstanding debt obligations, including the Notes, could be adversely affected.

The City is dependent in part on financial assistance from the State. However, if the State should experience difficulty in borrowing funds in anticipation of the receipt of State taxes in order to pay State aid to municipalities and school districts in the State, including the City, in any year, the City may be affected by a delay, until sufficient taxes have been received by the State to make State aid payments to the City. (See also “Finances of the City – Revenues - State Aid” herein).

The enactment of the Tax Levy Limitation Law, which imposes a tax levy limitation upon municipalities, school districts and fire districts in the State, including the City could have an impact upon the market price of the Notes. See “THE NOTES – Tax Levy Limitation Law” herein.

TAX MATTERS

In the opinion of Barclay Damon LLP, Bond Counsel, Albany, New York, under existing law, (1) interest on the Notes is excluded from gross income of the owners thereof for Federal income tax purposes and is not an “item of tax preference” for purposes of the individual alternative minimum tax imposed by the Code, except that the City, by failing to comply with certain restrictions contained in the Code, may cause interest on the Notes to become subject to Federal income taxation from the date of issuance thereof; and (2) interest on the Notes is exempt from personal income taxes imposed by the State of New York or any political subdivision thereof (including The City of New York).

In rendering the foregoing opinions, Bond Counsel noted that exclusion of the interest on the Notes from gross income for Federal income tax purposes is dependent, among other things, on compliance with the applicable requirements of the Code that must be met subsequent to the issuance and delivery of the Notes for interest thereon to be and remain excluded from gross income for Federal income tax purposes. Non-compliance with such requirements could cause the interest on the Notes to be included in gross income retroactive to the date of issuance of the Notes. Those requirements include, but are not limited to, provisions that prescribe yield and other limits within which the proceeds of the Notes are to be invested and require, under certain circumstances, that certain investment earnings on the foregoing be rebated on a periodic basis to the Treasury Department of the United States of America. The City will covenant in the Tax Certificate as to Arbitrage and Instructions as to Compliance with Provisions of Section 103(a) of the Code, that, to maintain the exclusion of interest on the Notes from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code, and for no other purpose, the City shall comply with each applicable provision of the Code.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted on May 17, 2006, contains a provision under which interest paid on tax-exempt obligations will be subject to information reporting in a manner similar to interest paid on taxable obligations. Although the new reporting requirement does not, in and of itself, affect the excludability of such interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Notes to be subject to backup withholding if such interest is paid to registered owners who either (a) fail to provide certain identifying information (such as the registered

owner's taxpayer identification number) in the required manner or (b) have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Amounts withheld under the backup withholding rules from a payment to a beneficial owner would be allowed as a refund or a credit against such beneficial owner's federal income tax liability provided the required information is furnished to the IRS.

Bond Counsel also has advised that (1) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, the Code provides that such insurance company's deduction for loss is reduced by 15% of the sum of certain items, including interest on the Notes; (2) interest on the Notes earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code; (3) passive investment income, including interest on the Notes, may be subject to Federal income taxation under section 1375 of the Code for Subchapter S corporations that have Subchapter C earnings and profits at the close of the year if greater than 25% of the gross receipts of such Subchapter S corporation is passive investment income; (4) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account, in determining the taxability of such benefits, receipts or accruals of interest on the Notes; and (5) under Section 32 (i) of the Code, receipt of investment income, including interest on the Notes, may disqualify the recipient thereof from obtaining the earned income credit.

A Noteholder's federal, state and local tax liability may otherwise be affected by the ownership or disposition of the Notes. The nature and extent of these other consequences will depend upon the Noteholder's other items of income or deduction. Bond Counsel has expressed no opinion regarding any such other tax consequences. Each purchaser of the Notes should consult its tax advisor regarding the impact of the foregoing and other provisions of the Code on its individual tax position.

The Notes will be designated or deemed designated by the City as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code.

Tax legislation, administrative actions taken by tax authorities and court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Notes under federal or state law and could affect the market price for, or the marketability of, the Notes. Prospective purchasers of the Notes should consult their own tax advisers regarding the foregoing matters.

LEGAL MATTERS

The legality of the authorization and issuance of the Notes will be covered by the unqualified legal opinion of Barclay Damon LLP, Bond Counsel, Albany, New York to the effect that the Notes are valid and legally binding obligations of the City, all the taxable real property therein will be subject to the levy of ad valorem taxes to pay the Notes and the interest thereon without limitation as to rate or amount, subject to the statutory limitations of Chapter 97 of the Law of 2011 of the State of New York, that, among other things, the Code includes certain requirements that must be met subsequent to the issuance of the Notes in order that interest thereon be and remain excludable from gross income to the recipients thereof, and that under existing law and assuming compliance with certain covenants, interest on the Notes is excludable from gross income for Federal income tax purposes and is not an "item of preference" for purposes of the individual alternative minimum tax imposed by the Code. In addition, by virtue of the Local Finance Law, interest on the Notes is exempt from personal income taxes of the State of New York and its political subdivisions. The foregoing opinions will be subject to the following: (a) the rights of the owners of the Notes and the enforceability of the Notes may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity; (b) Bond Counsel expresses no opinion as to the accuracy, adequacy or completeness of the Official Statement relating to the Notes; and (c) such opinion is given as of its dated date and that Bond Counsel assumes no obligation to update or supplement their opinion to reflect any facts or circumstances that may hereafter come to their attention or any changes in law that may occur thereafter.

ABSENCE OF LITIGATION

The City is subject to a number of lawsuits in the ordinary conduct of its affairs. The City does not believe that such suits, individually or in the aggregate, shall have a material adverse effect on the financial condition of the City. There is no controversy or litigation of any nature now pending or, to the knowledge of the Corporation Counsel, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of the Notes, or any law or other authorization with respect to the issuance or sale of the Notes, or the payment of the Notes, or the existence or powers of the City, or the title to their respective offices of the present officers of the City who are responsible for the issuance, sale, execution or delivery of the Notes.

Upon delivery of the Notes, the City shall furnish a certificate of the City Corporation Counsel, dated the date of delivery and payment for the Notes, to the effect that there is no controversy or litigation of any nature pending or threatened to his knowledge to restrain or enjoin the issuance, sale, execution or delivery of its bonds or notes, or in any way contesting or affecting the validity of the Notes or any of the proceedings taken with

respect to the issuance and sale thereof or the application of moneys to the payment of the Notes and further stating that there is no controversy or litigation of any nature now pending or threatened by or against the City wherein an adverse judgment or ruling could adversely affect the power of the City to levy, collect and enforce the collection of taxes or other revenues for the payment of its bonds or notes.

RATING

The Notes are not rated. The City's outstanding bonds are currently rated "A3" by Moody's Investors Service ("Moody's"), 7 WTC at 250 Greenwich Street, New York, NY 10007, Phone: (212) 553-4055 and Fax: (212) 298-6761 and "A+" (negative outlook) by Standard & Poor's Corporation ("S&P") 55 Water Street, New York, NY 10041, Telephone: (877) 299-2569 and Fax: (212) 438-5153. These ratings reflect only the view of the rating agencies and any desired explanation of the significance of such rating should be obtained from Moody's and S&P. Generally, a rating agency bases its ratings on the information and materials furnished to it and on investigation, studies and assumptions by the rating agency. There is no assurance that a particular rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Any downward revision or withdrawal of such ratings could have an adverse affect on the market price of the Notes or the availability of a secondary market for such Notes.

MUNICIPAL ADVISOR

Munistat Services, Inc. (the "Municipal Advisor"), is a Municipal Advisor, registered with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board. The Municipal Advisor serves as independent municipal advisor to the City on matters relating to debt management. The Municipal Advisor is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiated instruments. The Municipal Advisor has provided advice as to the plan of financing and the structuring of the Notes and has reviewed and commented on certain legal documents, including this Official Statement. The advice on the plan of financing and the structuring of the Notes was based on materials provided by the City and other sources of information believed to be reliable. The Municipal Advisor has not audited, authenticated, or otherwise verified the information provided by the City or the information set forth in this Official Statement or any other information available to the City with respect to the appropriateness, accuracy, or completeness of disclosure of such information and no guarantee, warranty, or other representation is made by the Municipal Advisor respecting the accuracy and completeness of or any other matter related to such information and this Official Statement.

ADDITIONAL INFORMATION

Additional information may be obtained from the office of Michael McNeff, Director of Finance, City of Watervliet, City Hall, Watervliet, New York 12189, Phone (518) 270-3800, Fax (518) 270-3838 and email: mmcneff@watervliet.com, or from Munistat Services, Inc., 12 Roosevelt Avenue, Port Jefferson Station, New York 11776, telephone number 631/331-8888 and website: <http://www.munistat.com>.

Munistat Services, Inc. may place a copy of this Official Statement on its website at www.munistat.com. Unless this Official Statement specifically indicates otherwise, no statement on such website is included by specific reference or constitutes a part of this Official Statement. Munistat Services, Inc. has prepared such website information for convenience, but no decisions should be made in reliance upon that information. Typographical or other errors may have occurred in converting original source documents to digital format, and neither the City nor Munistat Services, Inc. assumes any liability or responsibility for errors or omissions on such website. Further, Munistat Services, Inc. and the City disclaim any duty or obligation either to update or to maintain that information or any responsibility or liability for any damages caused by viruses in the electronic files on the website. Munistat Services, Inc. and the City also assumes no liability or responsibility for any errors or omissions for any unauthorized edits or for any updates to dated website information.

Barclay Damon LLP, Albany, New York, Bond Counsel to the City, expresses no opinions as to the accuracy or completeness of information in any documents prepared by or on behalf of the City for use in connection with the offer and sale of the Notes, including but not limited to, the financial or statistical information in this Official Statement.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such opinions or estimates will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing with regard to the Notes is to be construed as a contract with the holders of the Notes.

Statements in this Official Statement, and the documents included by specific reference, that are not historical facts are forward-looking statements, which are based on the City management's beliefs as well as

assumptions made by, and information currently available to, the City's management and staff. Because the statements are based on expectations about future events and economic performance and are not statements of facts, actual results may differ materially from those projected. Important factors that could cause future results to differ include legislative and regulatory changes, changes in the economy, and other factors discussed in this and other documents that the City's files with the repositories. When used in City documents or oral presentation, the words "anticipate", "estimate", "expect", "objective", "projection", "forecast", "goal", or similar words are intended to identify forward-looking statements.

The preparation and distribution of this Official Statement have been approved by the Direct of Finance of the City pursuant to the power delegated to him by the authorizing tax anticipation resolution to sell and deliver the Notes.

This Official Statement has been duly executed and delivered by the Director of Finance of the City of Watervliet.

By:

s/s

MICHAEL MCNEFF
Director of Finance
City of Watervliet

Dated: October , 2018

APPENDIX A

FINANCIAL INFORMATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GENERAL FUND

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Real Property Taxes	\$ 3,974,941	\$ 3,994,266	\$ 4,031,658	\$ 4,147,982	\$ 4,229,620
Real Property Tax Items	152,353	152,781	179,090	117,001	105,995
Non-Property Taxes	3,523,544	3,676,666	3,694,764	3,719,104	3,758,508
Departmental Income	585,034	576,551	586,337	456,153	609,089
Intergovernmental Charges	481,490	957,291	648,180	204,199	273,993
Use of Money and Property	3,166	2,631	1,293	341	91
Licenses and Permits	36,143	125,566	104,065	210,388	152,843
Fines and Forfeitures				261,030	90,441
Sale of Property and Compensation for Loss				50,000	
Miscellaneous	193,861	191,538	191,659	148,199	393,902
State and Federal Aid	<u>1,381,645</u>	<u>1,286,225</u>	<u>1,504,375</u>	<u>1,494,799</u>	<u>1,824,095</u>
Total Revenues	<u>10,332,177</u>	<u>10,963,515</u>	<u>10,941,421</u>	<u>10,809,196</u>	<u>11,438,577</u>
Expenditures:					
General Government Support	1,012,430	1,047,327	1,223,443	797,009	866,744
Public Safety	5,142,575	5,535,577	5,569,611	5,464,316	5,175,025
Health				99	
Transportation	532,201	554,461	522,474	331,067	579,278
Economic Assistance & Opportunity	23,511	21,814	23,500	23,500	23,500
Culture and Recreation	277,608	289,496	273,499	236,746	229,499
Home and Community Services	577,227	537,382	564,862	527,486	560,053
Employee Benefits	3,570,132	3,695,564	3,784,811	3,465,087	3,433,292
Debt Service (Principal & Interest)	<u>685,461</u>	<u>598,314</u>	<u>594,373</u>	<u>597,886</u>	<u>647,115</u>
Total Expenditures	<u>11,821,145</u>	<u>12,279,935</u>	<u>12,556,573</u>	<u>11,443,196</u>	<u>11,514,506</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,488,968)	(1,316,420)	(1,615,152)	(634,000)	(75,929)
Other Financing Sources (Uses):					
Operating Transfers in	1,493,149	1,362,153	1,529,432	300,000	342,000
Operating Transfers Out				(91,708)	(110,000)
Long Term Financing of Pension Obligation					
Total Other Financing Sources (Uses)	<u>1,493,149</u>	<u>1,362,153</u>	<u>1,529,432</u>	<u>208,292</u>	<u>232,000</u>
Excess (Deficiency) of Revenues & Other Sources over Exp and Other Uses	4,181	45,733	(85,720)	(425,708)	156,071
Fund Equity Beginning of Year	945,138	949,319	995,052	909,332	487,261
Prior Period Adjustment				3,637	(43,544)
Fund Balance End of Year	<u>\$ 949,319</u>	<u>\$ 995,052</u>	<u>\$ 909,332</u>	<u>\$ 487,261</u>	<u>\$ 599,788</u>

Sources: Audited Financial Reports of the City (2013-2017)

In 2016, \$160,111 was reclassified from the General Fund to the Capital Projects Fund.

NOTE: This Schedule NOT audited

City of Watervliet

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

SPECIAL REVENUE FUNDS *

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
Revenues:					
Departmental Income	\$ 4,177,710	\$ 4,208,285	\$ 4,130,990	\$ 4,182,829	\$ 4,156,964
Intergovernmental Charges					
Use of Money and Property	986	1,163	503	1,279	
Miscellaneous				234	
State and Federal Aid	557,806	27,503	406,779	295,878	574,445
Interfund Revenues	<u>20,000</u>			<u>41,708</u>	
Total Revenues	<u>4,756,502</u>	<u>4,236,951</u>	<u>4,538,272</u>	<u>4,521,928</u>	<u>4,731,409</u>
Expenditures:					
General Government Support	72,556	74,933	75,300	142,245	188,085
Home and Community Services	2,545,975	2,127,455	2,463,563	2,713,181	2,757,524
Employee Benefits	596,853	655,780	592,030	992,447	879,168
Debt Service (Principal & Interest)	<u>345,203</u>	<u>317,776</u>	<u>320,234</u>	<u>312,350</u>	<u>373,647</u>
Total Expenditures	<u>3,560,587</u>	<u>3,175,944</u>	<u>3,451,127</u>	<u>4,160,223</u>	<u>4,198,424</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,195,915	1,061,007	1,087,145	361,705	532,985
Other Financing Sources (Uses):					
Operating Transfers In (Out)	<u>(1,036,000)</u>	<u>(1,226,967)</u>	<u>(1,346,674)</u>	<u>(328,352)</u>	<u>(396,844)</u>
Total Other Financing Sources (Uses)	<u>(1,036,000)</u>	<u>(1,226,967)</u>	<u>(1,346,674)</u>	<u>(328,352)</u>	<u>(396,844)</u>
Excess (Deficiency) of Revenues Over Expenditures and Other Uses	159,915	(165,960)	(259,529)	33,353	136,141
Fund Balance Beginning of Year	726,537	886,452	718,145	492,125	525,478
Prior Period Adjustments		<u>(2,347)</u>			
Fund Balance End of Year	\$ <u><u>886,452</u></u>	\$ <u><u>718,145</u></u>	\$ <u><u>458,616</u></u>	\$ <u><u>525,478</u></u>	\$ <u><u>661,619</u></u>

* Special Revenue Fund includes the Water Fund, Sewer Fund, Special Grant Fund and Watervliet Industrial Development Agency.

Sources: Audited Financial Reports of the City (2013-2017).

This Schedule NOT audited

BALANCE SHEET
General and Special Revenue Funds

Fiscal Year Ending December 31, 2017

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Funds</u>
ASSETS:		
Cash	\$ 1,450,115	\$ 549,820
Accounts Receivable	594,099	
Other Receivables		980,132
State and Federal Aid Receivables		32,000
Due From Other Funds	1,097,479	783,934
Due From Other Governments	1,055,684	594,885
Restricted Assets	3,639	
Prepaid Expenses	<u>301,912</u>	<u>32,251</u>
Total	<u>\$ 4,502,928</u>	<u>\$ 2,973,022</u>
LIABILITIES:		
Accounts Payable	\$ 179,527	\$ 71,756
Due To Other Funds	685,335	1,359,445
Accrued Liabilities	297,970	4,600
Unearned Revenues		
Notes Payable	2,500,000	
Due to Other Governments	110,312	
Deferred Revenues	<u>129,996</u>	<u>875,601</u>
Total Liabilities	<u>3,903,140</u>	<u>2,311,402</u>
FUND EQUITY:		
Fund Balances		
Nonspendable	301,912	32,251
Restricted	3,639	371,217
Assigned	300,000	389,737
Unassigned	<u>-5,763</u>	<u>(131,584)</u>
Total Fund Equity	<u>599,788</u>	<u>661,621</u>
Total Liabilities and Fund Equity	<u>\$ 4,502,928</u>	<u>\$ 2,973,023</u>

Source: Unaudited Financial Statement (2017).

Note: This Schedule NOT audited

BUDGET SUMMARIES

General Fund Fiscal Year Ending December 31:

Revenues:	<u>2017</u>	<u>2018</u>
Real Property Taxes	\$ 4,231,154	\$ 4,853,385
Real Property Tax Items	121,000	170,000
Non-Property Taxes	3,846,009	3,827,000
Departmental Income	165,000	299,500
Intergovernmental Charges	4,000	
Use of Money and Property	1,500	105,000
Licenses and Permits	7,500	70,000
Sale of Property and Compensation for Loss	2,000	525,000
State Aid	1,214,193	1,270,693
Interfund Transfers	1,290,164	100,000
Miscellaneous	812,799	179,000
Appropriated Fund Balance	<u>300,000</u>	<u> </u>
Total Revenues	<u>\$ 11,995,319</u>	<u>\$ 11,399,578</u>
Expenditures:		
General Operating Expenses	\$ 1,209,544	\$ 945,602
Public Safety	4,987,020	4,834,373
Transportation	471,047	457,941
Economic Assistance & Opportunity	53,000	20,000
Culture and Recreation	255,033	197,615
Home and Community Services	558,544	519,496
Employee Benefits	3,806,919	3,587,445
Debt Service	654,212	657,106
Interfund Transfers	<u> </u>	<u>180,000</u>
Total Expenditures	<u>\$ 11,995,319</u>	<u>\$ 11,399,578</u>

Source: Adopted Budgets of the City.

CITY OF WATERVLIET
APPENDIX B
AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2017

CITY OF WATERVLIET, NEW YORK

FINANCIAL STATEMENTS
OF
THE GENERAL FUND, WATER FUND, SEWER FUND,
SPECIAL GRANT FUND, DEBT SERVICE FUND AND
CAPITAL PROJECTS FUND

Year ended December 31, 2017

CITY OF WATERVLIET, NEW YORK

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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS OF THE GENERAL FUND, WATER FUND, SEWER FUND, SPECIAL GRANT FUND, DEBT SERVICE FUND, AND CAPITAL PROJECTS FUND

General Manager and Members of the City Council
City of Watervliet, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the general fund, water fund, sewer fund, special grant fund, debt service fund and capital projects fund of the City of Watervliet, New York, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unmodified Opinion on the Financial Statements of the General Fund, Water Fund, Sewer Fund, Special Grant Fund, Debt Service Fund, and Capital Projects Fund

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the general fund, water fund, sewer fund, special grant fund, debt service fund, and capital projects fund of the City of Watervliet, New York, as of December 31, 2017, and the changes in financial position and the budgetary comparison for the general fund, water fund and sewer fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Basis of Reporting

As discussed in Note 1, the financial statements present only the general fund, water fund, sewer fund, special grant fund, debt service fund, and capital projects fund and do not purport to, and do not, present fairly the government-wide financial position of the City of Watervliet, New York, as of December 31, 2017, or the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2018 on our consideration of the City of Watervliet's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Watervliet's internal control over financial reporting and compliance.

UHY LLP

Albany, New York
June 29, 2018

CITY OF WATERVLIET, NEW YORK
BALANCE SHEETS - ALL GOVERNMENTAL FUND TYPES
December 31, 2017

	Governmental Fund Types					
	General	Water	Sewer	Special Grant	Debt Service	Capital Projects
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES						
ASSETS						
Cash	\$ 1,450,115	\$ 7,610	\$ 12,235	\$ 466,461	\$ -	\$ 8,357
Accounts receivable	594,099	305,762	180,060	-	-	-
Special grant loans receivable	-	-	-	494,311	-	-
Due from other funds	1,097,479	693,494	90,440	-	295,583	631,325
Due from other governments	1,055,684	503,808	91,077	32,000	-	796,476
Prepaid expenses	301,912	32,251	-	-	-	-
Cash reserved for special purposes	3,639	-	-	-	332,321	-
Total assets	<u>4,502,928</u>	<u>1,542,925</u>	<u>373,812</u>	<u>992,772</u>	<u>627,904</u>	<u>1,436,158</u>
DEFERRED OUTFLOWS OF RESOURCES						
Total assets plus deferred outflows of resources	<u>\$ 4,502,928</u>	<u>\$ 1,542,925</u>	<u>\$ 373,812</u>	<u>\$ 992,772</u>	<u>\$ 627,904</u>	<u>\$ 1,436,158</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 179,527	\$ 65,760	\$ 5,996	\$ -	\$ -	\$ 590,511
Due to other funds	685,335	852,114	321,274	127,144	600,000	163,541
Due to other governments	110,312	-	-	-	-	-
Accrued liabilities	297,970	-	-	-	-	-
Revenue and bond anticipation notes payable	2,500,000	-	-	-	-	920,000
Total liabilities	<u>3,773,144</u>	<u>917,874</u>	<u>327,270</u>	<u>127,144</u>	<u>600,000</u>	<u>1,674,052</u>
DEFERRED INFLOWS OF RESOURCES	<u>129,996</u>	<u>203,064</u>	<u>178,126</u>	<u>494,411</u>	<u>-</u>	<u>-</u>
FUND BALANCES (DEFICIT):						
Not in spendable form	301,912	32,251	-	-	-	-
Restricted	3,639	-	-	-	27,904	-
Assigned to:						
Special Revenue Funds	-	389,736	-	371,217	-	-
Capital Projects	-	-	-	-	-	123,820
General Fund appropriation	300,000	-	-	-	-	-
Unassigned	(5,763)	-	(131,584)	-	-	(361,714)
Total fund balance (deficit)	<u>599,788</u>	<u>421,987</u>	<u>(131,584)</u>	<u>371,217</u>	<u>27,904</u>	<u>(237,894)</u>
Total liabilities, deferred inflows of resources and fund balances (deficit)	<u>\$ 4,502,928</u>	<u>\$ 1,542,925</u>	<u>\$ 373,812</u>	<u>\$ 992,772</u>	<u>\$ 627,904</u>	<u>\$ 1,436,158</u>

See notes to financial statements.

CITY OF WATERVLIET, NEW YORK
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES (DEFICIT) - ALL GOVERNMENTAL FUND TYPES
Year Ended December 31, 2017

	Governmental Fund Types					
	General	Water	Sewer	Special Grant	Debt Service	Capital Projects
Revenues:						
Real property taxes	\$ 4,229,620	\$ -	\$ -	\$ -	\$ -	\$ -
Real property tax items	105,995	-	-	-	-	-
Non-property tax items	3,758,508	-	-	-	-	-
Departmental income	609,089	2,881,123	1,148,213	127,628	-	-
Intergovernmental charges	273,993	-	-	-	-	272,057
Use of money and property	91	-	-	-	58	-
Licenses and permits	152,843	-	-	-	-	-
Fines and forfeitures	90,441	-	-	-	-	-
Miscellaneous local sources	393,902	-	-	-	-	-
State and federal aid	1,824,095	-	-	574,445	-	866,404
Total revenues	11,438,577	2,881,123	1,148,213	702,073	58	1,138,461
Expenditures:						
General government support	866,744	141,573	46,512	-	-	1,246,357
Public safety	5,175,025	-	-	-	-	-
Transportation	579,278	-	-	-	-	-
Economic assistance and opportunity	23,500	-	-	-	-	-
Culture and recreation	229,499	-	-	-	-	-
Home and community services	560,053	1,299,068	823,801	634,655	-	375,477
Employee benefits	3,433,292	694,532	184,636	-	-	-
Debt service (principal and interest)	647,115	243,431	130,216	-	-	-
Total expenditures	11,514,506	2,378,604	1,185,165	634,655	-	1,621,834
Excess of revenues (under) over expenditures	(75,929)	502,519	(36,952)	67,418	58	(483,373)
Other financing sources (uses)						
Operating transfers in (out), net	232,000	(396,844)	-	-	(134,079)	298,923
Total other financing sources (uses)	232,000	(396,844)	-	-	(134,079)	298,923
Excess of revenues and other financing sources (under) over expenditures and other uses	156,071	105,675	(36,952)	67,418	(134,021)	(184,450)
Fund balance (deficit), beginning	443,717	316,312	(94,632)	303,799	161,925	(53,444)
Fund balance (deficit), ending	\$ 599,788	\$ 421,987	\$ (131,584)	\$ 371,217	\$ 27,904	\$ (237,894)

See notes to financial statements.

CITY OF WATERVLIET, NEW YORK
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (DEFICIT) -
MODIFIED BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUNDS
Year Ended December 31, 2017

	General Fund				Water Fund				Sewer Fund			
	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)
Revenues:												
Real property taxes	\$ 4,231,154	\$ 4,231,154	\$ 4,229,620	\$ (1,534)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Real property tax items	121,000	122,300	105,995	(16,305)	-	-	-	-	-	-	-	-
Non-property tax items	3,846,800	3,846,800	3,758,508	(88,292)	-	-	-	-	-	-	-	-
Departmental income	1,512,024	1,631,078	609,089	(1,021,989)	2,789,659	2,792,579	2,881,123	88,544	1,227,035	1,227,035	1,148,213	(78,822)
Intergovernmental charges	-	-	273,993	273,993	-	-	-	-	-	-	-	-
Use of money and property	1,500	1,500	91	(1,409)	800	800	-	(800)	150	150	-	(150)
Licenses and permits	60,000	60,000	152,843	92,843	-	-	-	-	-	-	-	-
Fines and forfeitures	-	56,995	90,441	33,446	-	-	-	-	-	-	-	-
Sale of property and compensation for loss	2,000	2,000	-	(2,000)	-	-	-	-	-	-	-	-
Miscellaneous local sources	608,235	868,667	393,902	(474,765)	78,529	94,761	-	(94,761)	-	-	-	-
State and federal aid	1,301,193	1,794,435	1,824,095	29,660	-	-	-	-	-	-	-	-
Total revenues	<u>11,683,906</u>	<u>12,614,929</u>	<u>11,438,577</u>	<u>(1,176,352)</u>	<u>2,868,988</u>	<u>2,888,140</u>	<u>2,881,123</u>	<u>(7,017)</u>	<u>1,227,185</u>	<u>1,227,185</u>	<u>1,148,213</u>	<u>(78,972)</u>
Expenditures:												
General government support	1,380,055	1,533,094	866,744	666,350	190,000	156,514	141,573	(14,941)	45,500	46,581	46,512	69
Public safety	4,865,537	5,253,868	5,175,025	78,843	-	-	-	-	-	-	-	-
Health	-	-	-	-	-	-	-	-	-	-	-	-
Transportation	489,427	778,213	579,278	198,935	-	-	-	-	-	-	-	-
Economic assistance and opportunity	23,500	23,500	23,500	-	-	-	-	-	-	-	-	-
Culture and recreation	234,009	261,850	229,499	32,351	-	-	-	-	-	-	-	-
Home and community services	558,828	605,635	560,053	45,582	1,310,816	1,363,454	1,299,068	(64,386)	834,746	830,486	823,801	6,685
Employee benefits	3,778,344	3,901,539	3,433,292	468,247	761,269	719,269	694,532	(24,737)	219,902	219,902	184,636	35,266
Debt service (principal and interest)	654,212	657,328	647,115	10,213	252,059	252,059	243,431	(8,628)	127,037	130,216	130,216	-
Total expenditures	<u>11,983,912</u>	<u>13,015,027</u>	<u>11,514,506</u>	<u>1,500,521</u>	<u>2,514,144</u>	<u>2,491,296</u>	<u>2,378,604</u>	<u>(112,692)</u>	<u>1,227,185</u>	<u>1,227,185</u>	<u>1,185,165</u>	<u>42,020</u>
Excess (deficiency) of revenues over expenditures	<u>(300,006)</u>	<u>(400,098)</u>	<u>(75,929)</u>	<u>324,169</u>	<u>354,844</u>	<u>396,844</u>	<u>502,519</u>	<u>105,675</u>	<u>-</u>	<u>-</u>	<u>(36,952)</u>	<u>(36,952)</u>
Other financing sources (uses)												
Operating transfers in (out), net	110,000	110,000	232,000	122,000	(354,844)	(396,844)	(396,844)	-	-	-	-	-
Total other financing sources (uses)	<u>110,000</u>	<u>110,000</u>	<u>232,000</u>	<u>122,000</u>	<u>(354,844)</u>	<u>(396,844)</u>	<u>(396,844)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other uses	<u>(190,006)</u>	<u>(290,098)</u>	<u>156,071</u>	<u>446,169</u>	<u>-</u>	<u>-</u>	<u>105,675</u>	<u>105,675</u>	<u>-</u>	<u>-</u>	<u>(36,952)</u>	<u>(36,952)</u>
Fund balance (deficit), beginning	<u>443,717</u>	<u>443,717</u>	<u>443,717</u>	<u>-</u>	<u>316,312</u>	<u>316,312</u>	<u>316,312</u>	<u>-</u>	<u>(94,632)</u>	<u>(94,632)</u>	<u>(94,632)</u>	<u>-</u>
Fund balance (deficit), ending	<u>\$ 253,711</u>	<u>\$ 153,619</u>	<u>\$ 599,788</u>	<u>\$ 446,169</u>	<u>\$ 316,312</u>	<u>\$ 316,312</u>	<u>\$ 421,987</u>	<u>\$ 105,675</u>	<u>\$ (94,632)</u>	<u>\$ (94,632)</u>	<u>\$ (131,584)</u>	<u>\$ (36,952)</u>

See notes to financial statements.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Watervliet, Albany County, New York (the City), is governed by the Charter of the City of Watervliet, the General City Law and other general laws of the State of New York. The governing body is the City Council (the Council) comprised of the mayor and two councilmen who act as both legislators and administrators. The mayor and council members are elected for terms of four years.

The general manager, appointed by and subject to the control of the Council, is the administrative head of the City government. The mayor is the chief executive officer and the director of finance is the chief fiscal officer of the City.

The following basic services are provided: water, sewer, highway maintenance, police and fire, planning, zoning, building and safety inspection, and lighting.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America, as promulgated by the Governmental Accounting Standard Board (GASB) as they relate to fund accounting for fiscal accountability. Fiscal accountability is one of the primary objectives of financial reporting and is designed to demonstrate that the actions of the government during the current period have complied with public decisions concerning the raising and spending of public monies during the reporting cycle.

GASB Statement 34, Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments became effective for the City for the year ended December 31, 2004. This statement requires the financial statements to include government-wide financial statements on a full accrual basis, in addition to the fund financial information presented by the City of Watervliet in these financial statements. It further requires information relating to fixed assets, including infrastructure and depreciation, component units and reconciliation between government-wide and fund statements, as well as management discussion and analysis.

The City has not implemented GASB 34 due to the costs associated with the development and maintenance of the information required to present government-wide financial statements. The accompanying financial statements present the financial position of the general fund, water fund, sewer fund, special grant fund, debt service and capital projects funds and the revenues, expenditures and changes in fund equity and the respective budgetary comparisons for the year ended December 31, 2017. They do not present the government-wide financial position and changes in financial position in accordance with generally accepted accounting principles.

(a) Financial Reporting Entity

The financial reporting entity consists of the general fund, water fund, sewer fund, special grant fund, debt service fund and capital projects fund of the City of Watervliet and does not include any other funds, account groups or component units of the City.

(b) Fund Accounting – Basis of Presentation

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances, revenues, and expenditures. The following fund types are used by the City:

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds:

General Fund: To account for all financial resources (e.g., real property taxes and state aid) which are not required by law or other provisions to be accounted for within other funds.

Special Revenue Funds: Utilized to account for revenues derived from specific sources which are required by law or regulation to be accounted for in separate funds. Special revenue funds include the following:

Water Fund: Used to account for water operations of the water district.

Sewer Fund: Used to account for sewer operations of the sewer district.

Special Grant Fund: Used to account for community development projects. The City of Watervliet Local Development Corporation (LDC) activity is included in the Special Grant fund. The LDC is a not-for-profit public benefit corporation of the State of New York which is accounted for as a blended component unit of the City of Watervliet.

Debt Service Fund: Used to account for financial resources which are being accumulated for payment of principal and interest on long-term indebtedness. A reserve for bonded indebtedness was established by the Common Council in 1983.

Capital Projects Fund: Used to account for resources committed to or to be used in the acquisition or construction of capital facilities and other capital outlays.

Agency Fund: Used to account for resources held for the benefit of parties outside the City. Agency funds are not reflected in the financial statements because the resources of those funds are not available to support the City's programs.

(c) Basis of Accounting

Governmental Funds - are accounted for on the modified accrual basis, the method prescribed by generally accepted accounting principles for fund accounting purposes.

Revenues - are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the sixty days succeeding the year. Revenues not collected within this sixty day period are recorded as unearned revenue and recognized when received. Material revenue sources considered susceptible to accrual include real property taxes, state aid, sales tax and certain special revenue user charges.

Expenditures - are recorded when the liability is incurred except that:

- a. Interest on long-term indebtedness is not recognized as an expenditure until paid.
- b. Purchases for inventory-type items are considered expenditures at the time they are received.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Fund Balance Classification

Fund balances are classified as follows:

Nonspendable - This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.

Restricted - This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the City Board. The City did not have any committed resources as of December 31, 2017.

Assigned - This classification includes amounts that are constrained by the City's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Board or through the City Board delegating this responsibility to the City Director of Finance through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.

Unassigned - This classification includes the residual fund balance for the General Fund. The Unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of Assigned fund balance amounts.

The City would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Unassigned resources first to defer the use of these other classified funds.

(e) Property Taxes

City and County real property taxes are levied annually no later than December 31 and become a lien on January 1.

City and County taxes may be paid in full on or before January 31st of the current tax year without penalty. If property taxes are not paid before January 31st, a penalty of 1% per month will be charged. The penalty becomes due and is added to the property tax receivable balance on the 1st of each month until paid.

If property taxes are not paid by October 15th of the current tax year, an additional amount equal to 5% of the amount of the tax remaining unpaid will be added to the property tax receivable balance and unpaid taxes as of said date will be turned over to the Director of Finance of Albany County for collection.

Taxes for County purposes are levied together with taxes for City purposes as a single bill. The County assumes enforcement responsibility for all taxes levied in the City. The City receives the full amount of such taxes within the year of levy.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Budgetary Data

1. Budget Policies - The budget policies are as follows:

- a. No later than December 1st, the budget officer submits a tentative budget to the Council for the fiscal year commencing the following January. The tentative budget includes proposed expenditures and the proposed means of financing expenditures for all funds.
- b. Public hearings are conducted to obtain taxpayer comments. Prior to December 15th the governing board adopts the budget.
- c. All modifications of the budget must be approved by the governing board.
- d. Formal budgetary accounting is employed by the City as a management control. Annual operating budgets are adopted each fiscal year for the General Fund, Water Fund and Sewer Fund. Budgetary controls are established for the Capital Projects Fund through City Council resolutions authorizing individual projects which remain in effect for the life of the project. Grant funded projects do not require the adoption of a formal budget.
- e. Except as indicated below, budgets are adopted annually on a basis consistent with generally accepted accounting principles.

Budgetary controls for the special grant fund are established in accordance with the applicable grant agreement which covers a period other than the City's fiscal year. Consequently, the budget for this fund has been excluded from the Combined Statement of Revenues, Expenditures and Changes in Fund Equity - Modified Budget and Actual.

2. Encumbrances

The City does not utilize an encumbrance system to account for obligations resulting from approved purchase orders or other commitments.

(g) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies. Estimates also affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

(h) Account Groups

Account groups are used by the City to establish accounting control and accountability for general fixed assets and general long-term debt. The two account groups are not "funds." They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations and are not included in the financial statements.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fixed Assets Account Group: This account group is established to account for fixed assets having significant value and an estimated life of one year or more.

Information in this account group is maintained on a cost basis.

General Long-Term Debt Account Group: Used to account for (permanently financed) long-term debt and other long-term liabilities to be provided for future budgets which are not required to be accounted for in other funds.

(j) Other

The following policies relate to transactions affecting governmental funds as well as the account groups.

1. General Fixed Assets

Fixed assets purchased for general governmental purposes are recorded as expenditures in the governmental funds and are capitalized at cost (or estimated historical cost for assets purchased prior to 1986) in the General Fixed Assets Account Group. Contributed fixed assets are recorded at fair value at the date received. These assets are not recorded in the financial statements.

Fixed assets consisting of certain infrastructure type improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage and lighting systems, have not been capitalized. Such assets normally are immovable and of value only to the City. Therefore, the purposes of stewardship for capital expenditures can be satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest on general fixed assets been capitalized.

2. Vacation and Sick Leave and Compensatory Absences

The City employees are granted vacation and sick leave and earn compensatory absences in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation and sick leave and unused compensatory absences at various rates subject to certain maximum limitations.

Estimated vacation and sick leave and compensatory absences accumulated by governmental fund type employees have been recorded in the general long-term debt account group and are not reflected in these financial statements.

Payment of vacation and sick leave recorded in the general long-term debt account group is dependent upon many factors, therefore, timing of future payments is not readily determinable. However, management believes that sufficient resources will be made available for the payments of vacation and sick leave and compensatory absences when such payment becomes due.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Post Retirement Benefits

In addition to providing pension benefits, the City provides health insurance coverage and survivor benefits for retired employees and their survivors. Substantially all of the City employees may become eligible for these benefits if they reach normal retirement age while working for the City. Health care benefits and survivors benefits are provided through an insurance company whose premiums are based on the benefits paid during the year. The City recognizes the cost of providing benefits by recording its share of insurance premiums as an expenditure in the year paid. The cost of post retirement benefits expenditure for the participating retirees for the year ended December 31, 2017, was approximately \$845,000.

4. Tax Abatements

The City follows GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatements agreements to disclose certain information about the agreements. The City is subject to certain agreements that generally provide for a 100 percent abatement of real property taxes in exchange for a payment in lieu of taxes (PILOT). The City's revenue under these PILOT agreements was approximately \$83,600 for the year ended December 31, 2017. Property tax revenue for these properties would have been approximately \$240,800 if the properties were taxed at 100% assessed value with the City recognizing a reduction of approximately \$157,200 in revenue. No additional commitments were made by the City, other than to abate taxes, as part of these agreements.

NOTE 2 — CASH AND INVESTMENTS

The City's investment policies are governed by state statutes. City monies must be deposited in banks or trust companies located and authorized to do business in New York State. The City is authorized to use demand accounts and invest in special time deposits and certificates of deposits. Permissible investments also include obligations of the U.S. Treasury and U.S. agencies, where principal and interest are guaranteed by the United States of America, and obligations of New York State or, with permission of the State Comptroller, in revenue and tax anticipation notes of New York State municipalities, school districts and district corporations.

Collateral is required for special time deposits and certificates of deposit not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, where principal and interest are guaranteed, and obligations of New York State and its municipalities, school districts, public authorities and housing authorities. At December 31, 2017, these balances were fully collateralized as required by state statutes.

The carrying amount of the City's deposits with financial institutions was \$2,345,162 (including \$64,424 held in the Agency fund) and the collected bank balance was \$2,437,742. The bank balance was fully collateralized at December 31, 2017.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 3 — SPECIAL GRANT FUND - LOANS RECEIVABLE

The following notes receivable were outstanding at December 31, 2017:

Notes receivable due from City property owners for sidewalk, water line and sewer line replacements, facade loans, and micro business loans payable in monthly installments over a 5 to 10 year term, bearing interest ranging from 1 - 6%. Unearned revenue has also been reported equivalent to the amount of the outstanding notes.	<u>\$ 494,311</u>
	<u><u>\$ 494,311</u></u>

NOTE 4 — FIXED ASSETS

As described in Note 1, fixed assets of the City are recorded in the fixed asset account group at cost and are not included in these financial statements.

A summary of changes in this account group follows:

	<u>Balance January 1, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance December 31, 2017</u>
Land	\$ 108,948	\$ -	\$ -	\$ 108,948
Buildings	4,145,923	125,000	-	4,270,923
Machinery and equipment	4,518,908	151,477	12,626	4,657,759
	<u>\$ 8,773,779</u>	<u>\$ 276,477</u>	<u>\$ 12,626</u>	<u>\$ 9,037,630</u>

NOTE 5 — INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at December 31, 2017 were as follows:

<u>Fund Type</u>	<u>Interfund Receivables</u>	<u>Interfund Payable</u>
General	\$1,097,479	\$ 685,335
Water	693,494	852,114
Sewer	90,440	321,274
Special Grant	-	127,144
Capital Projects	631,325	163,541
Debt Service	295,583	600,000
	<u>\$2,808,321</u>	<u>\$2,749,408</u>

The Interfund receivable balance includes approximately \$58,900 due from the Agency Fund.

CITY OF WATERVLIET, NEW YORK

NOTES TO FINANCIAL STATEMENTS

December 31, 2017

NOTE 6 — OPERATING TRANSFERS

During the course of normal operations, the City records numerous transactions between funds, including expenditures for the provision of services as well as transfers between funds to finance various projects or debt payments. All operating transfers occur within the governmental funds and are reported as other financing sources (uses) in the statement of revenues, expenditures and changes in fund balances (deficit) – all governmental fund types.

NOTE 7 — PENSION PLANS

(a) Plan Description

The City participates in the New York State and Local Employees' Retirement System (ERS), the New York State and Local Police and Fire Retirement System (PFRS) and the Public Employees' Group Life Insurance Plan. These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. The System's report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

(b) Funding Policy

No employee contribution is required for those hired prior to July 1976. The System requires employee contributions of 3% of salary for the first 10 years of service for those employees who joined the System from July 1976 through December 2009. Participants hired on or after January 1, 2010 through March 31, 2012 are required to contribute 3% of compensation throughout their active membership in the System. Participants hired on or after April 1, 2012 are required to contribute a percentage ranging from 3% to 6% each year, based on their level of compensation. The Comptroller annually certifies the rates used, expressed as a percentage of the wages of participants, to compute the contributions required to be made by the City to the pension accumulation fund. For 2017, these rates ranged from 9.2% - 25.3% for the City's active employees. Employee contributions are deducted from their salaries and remitted on a current basis to the System.

The City is required to contribute at an actuarially determined rate. The required contributions for the System's fiscal years ended March 31 were:

	<u>ERS</u>	<u>PFRS</u>
2015	\$ 394,271	\$1,209,235
2016	\$ 394,439	\$1,012,028
2017	\$ 308,358	\$1,132,462

The City's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 7 — PENSION PLANS (Continued)

(c) Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Pension Liability

At December 31, 2017, the City's proportionate share of the deferred outflows of resources was approximately \$2,883,000, and its proportionate share of the deferred inflows of resources and net pension liability was approximately \$991,000 and \$3,779,000, respectively. The net pension liability was measured as of March 31, 2017, and the total pension liability was determined by an actuarial valuation as of April 1, 2016, with updated procedures used to roll forward the total pension liability to March 31, 2017. The City's proportion was based on the ratio of its actuarially determined employer contribution to ERS's and PFRS's total actuarially determined employer contribution for the fiscal year ended on the measurement date. At the March 31, 2017 measurement date, the City's proportions were 0.0067808% and 0.1515958% for ERS and PFRS, respectively.

The City has an additional deferred outflow of resources of approximately \$1,337,000 as of December 31, 2017 for employer contributions made subsequent to the measurement date of March 31, 2017.

Deferred outflows of resources is reported in the Long-term Asset Account. Deferred inflows of resources and net pension liability are reported in the General Long-term Debt Account Group.

(d) Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

NOTE 8 — LONG-TERM DEBT

As discussed in Note 1, long-term debt of the City is recorded in the general long-term debt account group. The following describes long-term debt of the City, which is not included in the financial statements.

- a. Bonds - The City borrows money in order to acquire land or equipment or construct buildings and improvements. This enables the cost of these capital assets to be borne by the present and future taxpayers receiving the benefit of the capital assets. These serial bonds, which are secured by the full faith and credit of the City, are recorded in the general long-term debt account group.
- b. Other Long-Term Debt - In addition to the above serial bonds, the City had the following liabilities that were not expected to be paid within one year:

Compensated absences represent amounts attributed to the earned and unused portion of the liability for vacation and sick leave and compensatory absences.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 — LONG-TERM DEBT (Continued)

c. Summary of Long-Term Debt - The following long-term debt was outstanding at December 31, 2017:

	<u>Period of Issue</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Outstanding at December 31, 2017</u>
Various purpose serial bonds	05/1960	\$ 535,000	3.6%	\$ 9,000
Various purpose serial bonds	10/2006	2,478,060	4.125%	1,180,000
Various purpose serial bonds	02/2011	2,940,000	4.35%	2,170,000
Retirement system serial bonds	02/2011	800,000	4.53%	410,000
Various purpose serial bonds	12/2011	2,255,000	2 - 2.5%	840,000
Various purpose serial bonds	09/2016	2,508,862	2.5-2.7%	2,405,000
Total serial bonds				7,014,000
Estimated:				
Compensated absences				1,764,041
Other postemployment benefit obligation (Note 9)				13,057,718
Total long-term debt				<u>\$21,835,759</u>

Future minimum debt service payments on serial bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 789,000	\$ 240,965	\$1,029,965
2019	805,000	214,162	1,019,162
2020	830,000	185,751	1,015,751
2021	570,000	159,540	729,540
2022	475,000	138,430	613,430
2023-2027	2,025,000	419,522	2,444,522
2028-2032	915,000	135,325	1,050,325
2033-2036	605,000	39,955	644,955
	<u>\$7,014,000</u>	<u>\$1,533,650</u>	<u>\$8,547,650</u>

Interest expenditures attributable to long-term debt were approximately \$259,000 for the year ended December 31, 2017.

d. Summary of Changes in Long-Term Liabilities - The following is a summary of changes in long-term liabilities for the year ended December 31, 2017:

	<u>Serial Bonds</u>	<u>Compensated Absences</u>	<u>Other Postemployment Benefit Obligation</u>
Payable, January 1, 2017	\$7,772,862	\$1,868,940	\$ 11,699,802
Proceeds	-	-	-
Changes in estimate	-	(104,899)	2,202,464
Less: payments	758,862	-	844,548
Payable, December 31, 2017	<u>\$7,014,000</u>	<u>\$1,764,041</u>	<u>\$ 13,057,718</u>

Additions and deletions to compensated absences are shown net, since it is not practical to determine these amounts separately.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 8 — LONG-TERM DEBT (Continued)

- e. Other Long-term Debt – In addition to the above long-term debt, the City has long-term debt related to deferred inflows of resources and net pension liability for the pension plans (Note 7).

NOTE 9 — OTHER POSTEMPLOYMENT BENEFITS

The City follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the recognition, measurement and presentation of retiree health insurance expenses.

The City provides health care benefits for certain retired employees. These costs are recognized and expensed when paid in the fund financial statements. The obligation recognized under GASB Statement No. 45 is included in the general long-term debt account group (Note 7) which is not included in the fund financial statements.

Plan Description

The City administers its retiree health insurance plan (the Plan) as a single-employer defined benefit other postemployment benefit (OPEB) plan. The Plan provides for continuation of medical insurance benefits for certain qualifying retirees who have reached the age of 55 and have 30 years of service, and their eligible dependents. Retirees are required to pay between 0 - 10% of such costs dependent on the date of hire and are covered for life; eligible dependents are covered through the retiree's lifetime and are required to pay between 0 - 10% of costs.

Funding Policy

The City contributes sufficient amounts to the plan to satisfy current obligations on a pay-as-you-go basis. Contributions for current premiums for 2017 were approximately \$845,000.

Funded Status and Funding Progress

The plan is unfunded. The following table sets forth the actuarial accrued liability and funded status of the plan as of January 1, 2016, the latest valuation date:

Unfunded Actuarial Accrued Liability (UAAL)	
Currently retired	\$16,470,997
Active employees	<u>11,206,161</u>
Actuarial accrued liability	27,677,158
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	27,677,158
Funded ratio	0%
Normal cost	\$ 812,356

The following table summarizes the amortization calculation of the UAAL as of the latest valuation date:

UAAL	\$27,677,158
Amortization period (years)	30
Amortization discount rate	4%
UAAL amortization amount	\$ 1,539,012

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 9 — OTHER POSTEMPLOYMENT BENEFITS (Continued)

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for 2017:

Normal cost	\$ 812,356
Amortization of UAAL	1,539,012
Interest	<u>46,566</u>
ARC	2,397,934
Interest on net OPEB obligation	467,992
Adjustment to ARC	<u>(663,462)</u>
OPEB recorded in long-term debt	<u>\$2,202,464</u>
Net OPEB obligation at beginning of year	\$11,699,802
OPEB expense	2,202,464
OPEB contributions	<u>(844,548)</u>
Net OPEB obligation at end of year	<u>\$13,057,718</u>
Percentage of expense contributed	<u>38.3%</u>

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility consistent with the long-term perspective of the calculations.

The measurement date for the calculation was January 1, 2017 and the discount rate utilized was 4%. An ultimate trend rate of 5% was utilized for health care costs.

NOTE 10 — OTHER DEBT

Bond Anticipation Notes – Liabilities for bond anticipation notes (BANs) are accounted for in the Capital Project Funds. Debt service expenditures are recorded in the fund that benefited from the capital project financed by the note, e.g. the General Fund. State law requires that BANs issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BANs issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, providing that stipulated annual reductions of principal are made. Bond anticipation notes as of December 31, 2017 totaled approximately \$920,000, at an interest rate of 1.38%.

Revenue Anticipation Notes – Liabilities for revenue anticipation notes (RANs) are accounted for in the General Fund. Revenue anticipation notes as of December 31, 2017 totaled \$2,500,000, at an interest rate of 1.28%.

CITY OF WATERVLIET, NEW YORK
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE 11 — COMMITMENTS AND CONTINGENCIES

Self-Insurance: The City was self-insured with regard to workers' compensation and disability insurance until June 2004 and a reserve of \$3,639 has been established to cover claims for the period prior to June 2004.

Grant Programs: The City has received grants which are subject to audit by agencies of the State and Federal governments. Such audits may result in disallowances and a request for a return of funds to the federal and state governments. Based on past audits, the City's administration believes disallowances, if any, will be immaterial.

Lawsuits: The City is a defendant in various lawsuits wherein significant amounts are claimed. In the opinion of the City's legal counsel, after considering all relevant facts, the ultimate losses not covered by insurance resulting from such litigation would be immaterial in relation to the fund financial statements taken as a whole.

Intermunicipal Agreement: The City has entered into an agreement during 2009 with the Town of Guilderland to sell untreated water from its French Mills Reservoir. The water rate to be charged for the Town of Guilderland's usage will be \$.50 per 1,000 gallons and will be billed at a minimum of 4 million gallons per day. Rates will be adjusted annually based on the changes in the consumer price index. This agreement will expire on the earlier of December 31, 2028 or sixty months following notification by the New York State Department of Health that authorizes the Town of Guilderland to construct a facility to provide finished water.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

General Manager and Members of the City Council
City of Watervliet, New York

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the general fund, water fund, sewer fund, special grant fund, debt service fund and capital projects fund of the City of Watervliet ("the City") as of and for the year ended December 31, 2017, and the related notes to the financial statements, and have issued our report thereon dated June 29, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

UHY LLP

Albany, New York
June 29, 2018

APPENDIX C

FORM OF BOND COUNSEL OPINION

FORM OF OPINION

October [25], 2018

Council of the City of Watervliet
in the County of Albany, New York

Re: City of Watervliet
\$2,970,000 Bond Anticipation Notes, 2018

Dear Council Members:

We have examined a record of proceedings relating to the issuance of \$2,970,000 aggregate principal amount of Bond Anticipation Notes, 2018 (the “Note”) of the City of Watervliet (the “Issuer”), a municipal corporation of the State of New York, situate in the County of Albany. The Note is dated October 25, 2018, matures October 25, 2019, is numbered R-1 and bears interest at [_____] % per annum payable at maturity, and is issued pursuant to bond resolutions adopted on September 3, 2015, May 4, 2017, August 17, 2017 and April 19, 2018 and a certificate of the Director of Finance of the City, authorizing the issuance of notes in the principal amount of \$2,970,000.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that under existing law:

1. The Note is a valid and binding general obligation of the Issuer.
2. All taxable property in the territory of the Issuer is subject to ad valorem taxation, without limitation as to rate or amount to pay principal of and interest on the Note, subject to the statutory limitations of Chapter 97 of the Laws of 2011 of the State of New York.
3. Interest on the Note is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. The opinion set forth in the preceding sentence is subject to the condition that the Issuer comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Note in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted to comply with all such requirements. Failure to comply with all such requirements may cause interest on the Note to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Note. We express no opinion regarding other federal tax consequences arising with respect to the Note.

4. In our opinion, interest on the Note is exempt from personal income taxes imposed by New York State or any political subdivision thereof, including The City of New York.

Except as expressly stated above, we express no opinion as to any other federal or state income tax consequences of acquiring, carrying, owning or disposing of the Note. Owners of the Note should consult their tax advisors as to the applicability of any collateral tax consequences of ownership of the Note, which may include original issuance discount, purchase at a market discount or at a premium, taxation upon sale, redemption or other disposition, and various withholding requirements.

It is to be understood that the rights of the owners of the Note and the enforceability of the Note may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and by equitable principles, whether considered at law or in equity.

We express no opinion herein as to the accuracy, adequacy or completeness of the Official Statement relating to the Note.

This opinion is given as of the date hereof and we assume no obligation to update or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,