S&P Global Ratings

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Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile		
US$7.882 mil pub imp serial bnds ser 2017 dtd 06/22/2017 due 06/15/2040		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned it 'AA+' rating and stable outlook to Saratoga Spring, N.Y.'s series 2017 public improvement general obligation (GO) serial bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

The city's faith-and-credit pledge secures the bonds.

We understand officials intend to use series 2017 bond proceeds to finance various capital projects and equipment purchases in-line with its capital improvement program (CIP).

The rating reflects our opinion of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 18.5% of total-governmental-fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt-service-carrying charges at 7.4% of expenditures and net direct debt that is 106.3% of total-governmental-fund revenue, and a large pension and other-postemployment-benefit (OPEB) obligation with the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Very strong economy

We consider Saratoga Springs' economy very strong. The city, with an estimated population of 26,395, is located in Saratoga County in the Albany-Schenectady-Troy MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 136% of the national level and per capita market value of $159,452. Overall, the city's market value grew by 5% over the past year to $4.2 billion in fiscal 2017. The county unemployment rate was 3.8% in 2016.

Saratoga Springs is a commercial and industrial center for the surrounding area, as well as a popular summer destination due to Saratoga Race Course, Saratoga Casino & Raceway, and Saratoga Performing Arts Center. In addition, we believe Saratoga Springs' strong economy and participation in the nearby Albany government sector have helped provide favorable economic trends and indicators. Leading city employers include:

- Saratoga Hospital (1,850 employees),
- Skidmore College (1,120),
- Saratoga Springs City School District (1,010),
- Stewart's Ice Cream (990), and
- Quad Graphics (800).

The city has seen steady commercial and residential development recently, resulting in a 12% increase in market value since fiscal 2013. Assessed value (AV), over that same period, has remained mostly flat. AV has increased by 3% to $3.15 billion in fiscal 2017. There is little property tax base concentration with the 10 leading taxpayers accounting for a very diverse 7.7% of AV. Due to management's expectation for continued steady commercial and residential development, including 499 residential units and 281,114 commercial square feet of developments recently constructed or under construction, we believe modest market value and AV growth will likely continue. The city has an additional 575 residential units and 319,132 commercial square feet either already approved for construction or pending approval in 2017.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

The city implemented and formalized reserve-and-liquidity and debt-management policies in fiscal 2011. Management revised the reserve policy in fiscal 2015, and it now requires the maintenance of an unassigned general fund balance at 10%-25% of the budget. With city council approval, management can use amounts in excess of the 25% to fund one-time expenses. If the balance declines below 10%, management will prepare and submit a plan to the council to restore fund balance to the minimum target by either the next budget year or another appropriate period. The city's debt policy adheres to state statutes and contains qualitative stipulations for structuring, issuing, and managing debt.

Management is, what we consider, conservative with revenue and expenditure assumptions; it uses three years to five years of historical data when developing the budget and provides the council with quarterly budget-to-actual reports. The city's investment-management policy follows state guidelines; outside of what management presents in the audit, it informally reports cash to the council at various times throughout the year. While the city does not have a formal long-term financial plan, it maintains a six-year CIP that details funding for each project.

Adequate budgetary performance

Saratoga Springs' budgetary performance is adequate, in our opinion. The city had slight deficit operating results in the general fund of 0.7% of expenditures and deficit results across all governmental funds of 1.7% of expenditures in fiscal 2016.

We note fiscal 2016 results were obtained from the city's Annual Update Document, which we consider a reliable source, despite being unaudited.

The city did expect to use reserves in 2016. Despite the additional one-time expense of a lawsuit settlement, the city did end 2016, better than the appropriated fund balance. The city did see a slight decline in occupancy taxes in 2016, but that was partially offset by an increase in sales tax. Property taxes accounted for 37.3% of general fund revenue in fiscal 2016, followed by sales taxes (28.2%) and state aid (7.8%). The city's 2017 budget of $45.1 million includes $1.8 million in appropriated fund balance. Management reports expenditures are trending at or below expected budgeted levels. Revenues are coming in stronger in the first half 2017 when compared to the previous year. Given the city's history of adequate to strong budgetary performance, we would expect the city to maintain or slightly improve its current budgetary performance levels.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 26% of operating expenditures, or $11.2 million.

While the city spent down reserves in fiscal 2016, we still consider the current level very strong, in-line with its formal fund balance policy. The city's fiscal 2017 budget includes appropriated fund balance, but revenue is slightly over budget. Prior to the fiscal 2016 decision to use fund balance, the city has been able to replenish fund balance appropriated. Therefore, we expect available fund balance will likely remain very strong.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 18.5% of total-governmental-fund expenditures and 2.5x governmental debt service in fiscal 2016. In our view, the city has strong access to external liquidity if necessary, demonstrated by its access to capital markets for GO bonds within the past five years.

In our opinion, management does not invest aggressively with all of its holdings in cash. We recognize the city does not currently have any exposure to nonremote contingent-liability risks. The city has consistently had, what we consider, very strong liquidity; we do not expect these ratios to change.

Weak debt-and-contingent-liability profile

In our view, Saratoga Springs' debt-and-contingent-liability profile is weak. Total-governmental-fund debt service is 7.4% of total-governmental-fund expenditures, and net direct debt is 106.3% of total-governmental-fund revenue. Overall net debt is low at 1.8% of market value, which is, in our view, a positive credit factor.

Principal debt amortization is, in our opinion, below average with 45% being retired over the next 10 years. We understand management currently plans to issue about $7.3 million in new debt over the next two years for various capital projects. Due to the below-average amortization and high pension and OPEB carrying charge, we expect the debt-and-contingent-liability profile to remain weak.

In our opinion, Saratoga Springs' large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. However, state laws limit the ability for the city to pre-fund the OPEB obligation. Saratoga Springs' combined required pension and actual OPEB contribution totaled 12.9% of total-governmental-fund expenditures in fiscal 2016. Of that amount, 8.2% represented required contributions to pension obligations and 4.7% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2016. The funded ratio of the largest pension plan is 90.7%.

Saratoga Springs participates in the state-administered New York State Employees' Retirement System and the New York State & Local Police & Fire Retirement System. Management funds OPEB on a pay-as-you-go basis: It contributed $2.6 million in fiscal 2016. The city's unfunded actuarial accrued liability was $105 million at Dec. 31, 2016. While the city's pension costs have been falling, OPEB costs have been rising by a similar amount. The city has looked into increasing the age of OPEB recipients and limiting future benefits through labor negotiations; however, we believe these measures will only have a limited effect on the current unfunded liability. Therefore, we expect the combined pension and OPEB carrying charge to remain elevated.

Strong institutional framework

The institutional framework score for New York cities, other than New York City, is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Saratoga Springs' very strong budgetary flexibility and history of adequate budgetary performance. We believe the city's very strong economy and access to the broad and diverse Albany-Schenectady-Troy MSA provide further rating stability. Although pension and OPEB costs will continue to pressure budgetary performance, we believe management will likely continue to make the necessary budget adjustments to maintain balanced operations. Therefore, we do not expect to change the rating during the two-year outlook period.

Upside scenario

If the city can manage elevated pension and OPEB costs and maintain strong budgetary performance, and if economic indicators were to increase to levels we consider on par with its higher-rated peers, we could raise the rating.

Downside scenario

Although unlikely, if budgetary performance were to weaken substantially due to increased fixed costs, and if budget flexibility were to decline as a result, we could lower the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.