

RatingsDirect®

Summary:

Saratoga Springs, New York; General Obligation

Primary Credit Analyst:

Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

Secondary Contact:

Ruth S Ducret, New York (1) 212-438-1410; ruth.ducret@standardandpoors.com

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Summary:

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Credit Profile

US\$5.978 mil GO pub imp bnds ser 2015

Long Term Rating

AA+/Stable

New

Saratoga Springs GO

Long Term Rating

AA+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' rating and stable outlook to Saratoga Springs, N.Y.'s series 2015 general obligation (GO) refunding bonds.

In addition, Standard & Poor's affirmed its 'AA+' rating on the city's GO bonds outstanding. The outlook is stable.

The city's faith and credit pledge secures the bonds. We understand that officials intend to use bond proceeds to finance various capital projects and equipment purchases in line with its capital improvement program (CIP).

The rating reflects what we view as Saratoga Springs':

- Very strong economy, with participation in the diverse regional employment base of the Albany-Schenectady-Troy metropolitan statistical area (MSA);
- Strong management conditions, with "good" financial policies and practices;
- Strong budgetary performance, with a \$91,000 surplus in the general fund for unaudited fiscal 2014;
- Very strong budgetary flexibility, with available reserves above 15% in the past three fiscal years;
- Very strong liquidity, with total government available cash of 20.8% of total governmental fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong; and
- Adequate debt and contingent liability position, with debt service carrying charges of 7.1% and net direct debt that is 110% of total governmental fund revenue, and low overall net debt at less than 3% of market value, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong insertional framework score.

Very strong economy

Saratoga Springs, with a 2013 population estimate of 27,315, is in eastern upstate New York State in Saratoga County, approximately 30 miles north of Albany. The city is a commercial and industrial center for the surrounding areas; however, it is best known for the Saratoga Race Track and its performing arts center, as well as Skidmore College, which is one of the city's leading local employers. GLOBALFOUNDRIES Inc., a nanotechnology manufacturing and research and development facility is a leading employer within the area as well. Other leading employers within the city include:

- Saratoga Springs Hospital (1,850 employees);

- Saratoga Springs City School District (1,010);
- Stewart's Ice Cream (990; corporate headquarters); and
- Quad Graphics (800).

In addition to local employment, residents find other employment opportunities in Albany, Troy, and Schenectady. The city's strong economy and participation in nearby Albany's government sector has provided it with favorable economic trends and indicators. We expect professional and business services to contribute to employment growth in the region. County unemployment averaged 4.6% in 2014, below state and national levels. Projected median household effective buying income is what we consider a strong 131% of the national level.

According to management, Saratoga Springs expects to continue to see steady commercial and residential development in the next two-to-three years. Assessed value (AV) has increased less than 1% annually, on average, in the past four fiscal years to \$3.1 billion in 2015. Full valuation is \$3.88 billion or \$146,191 per capita. Management expects the modest trend of AV growth to continue in the next two years. Little taxpayer base concentration exists, with the 10 leading taxpayers accounting for what we consider a very diverse 7.8% of AV. We understand one of the city's top 10 taxpayers has been in litigation since 2009 to reduce their assessments; while there is no significant update, the city has reserves in place for these tax certioraris, and does not anticipate a material impact on the its finances.

Strong management conditions

Standard & Poor's still considers the city's management conditions strong and deems Saratoga Springs' financial management practices "good" under its Financial Management Assessment (FMA). An FMA of good indicates financial practices exist in most areas but that government officials might not formalize or regularly monitor all of them. The city implemented and formalized a reserve and liquidity policy, as well as a debt management policy in fiscal 2011. The reserve policy was revised in 2014 and now requires Saratoga Springs to maintain an unassigned general fund balance of 10%-15% of the budget; the city also implemented reserve policies for its water and sewer funds, which establishes a range of 10%-25%. With city council approval, management can use amounts in excess of the 15% in the general fund to fund one-time expenses. If the balance declines below 10%, management will prepare and submit a plan to the council to restore the fund balance back to the minimum target by either the next budget year or another appropriate period. The city's debt policy adheres to state statutes, and the city council reviews the policy annually. Saratoga Springs continues to project major costs and revenue well in advance of its budget formulation, and it monitors budget variances monthly with the council. The city maintains its own investment management policy that follows state guidelines.

Strong budgetary performance

In our opinion, Saratoga Springs has consistently maintained a very strong budgetary performance in the past three fiscal years. However, we expect its fiscal 2014 budgetary performance to deteriorate to a level we consider strong. Unaudited fiscal 2014 results show a general fund surplus of \$91,000 (0.2% of budget), despite a \$650,000 in retroactive payments for settled collective bargaining agreements. Management indicates the city's general fund performance in fiscal 2014 was driven by conservative budgeting and better-than-anticipated revenue performance in sales tax. We expect the city's total governmental fund performance to remain consistent with that of previous years as the general fund is the primary fund for the city. The city's fiscal 2015 budget totals about \$41 million, and while it is

only halfway through the fiscal year, management expects to close with at least break-even operations in the general fund.

Audited fiscal 2013, ended Dec. 31, 2013, closed with a \$2.7 million (7.2% of budget) operating surplus in the general fund and a \$3.4 million surplus (8.2% of budget) in total governmental funds. Management attributes the positive operating performance to steady growth in revenues relative to budget, strong sales tax performance, and video lottery terminal aid.

Property taxes, which we consider a stable, are the city's leading revenue source, accounting for 44% of budgeted general fund revenue in fiscal 2015, followed by another 32% from nonproperty taxes, which includes sales tax. Given Saratoga Springs's demonstrated ability to produce strong budgetary performances, and the city's strong management conditions with good financial management policies, we expect the city to maintain at least a strong budgetary performance over the next two years.

Very strong budgetary flexibility

The city's budgetary flexibility is very strong, in our view. Saratoga Springs has continued to improve reserve levels in the past three fiscal years. Unaudited 2014 results show the city's available reserve position improved to \$11.1 million or 27.8% of general fund expenditures, which is in line with management's reserve policy. For fiscal 2013, the city had about \$10.9 million in assigned and unassigned reserves, equivalent to about 29% of expenditures.

There is a \$1.2 million due from on the city's unaudited 2014 balance sheet because of a general fund loan to the water fund for operations. Saratoga Springs has worked with its auditor and has enacted a plan with the water department to adjust rates and the department will pay back this loan to the general fund over the next five years. Management currently indicates that the general fund could be paid back in less than five years given current projections. In addition, rates will continue to be adjusted in the water fund to maintain balanced operations. City management has also adopted a formal fund balance policy for the water and sewer funds, which mirrors the policy in place for the general fund.

We understand management has had discussions about possibly spending down reserves for one-time capital or other one-time expenditures. However, there is no current time frame to do such, and we understand the city will continue to use its reserve policy as a guide. At the same time, there is no indication the city will spend below 15% of expenditures. City management has also continued to reduce its reliance on using available reserves to balance its budget, thus we believe Saratoga Springs will continue to maintain a very strong budgetary flexibility in the next two years.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with 2013 total governmental available cash at 21% of total governmental fund expenditures and 294% of 2013 debt service. The city's unaudited cash position for fiscal 2014 is slightly higher than fiscal 2013, thus we believe its liquidity will remain very strong. Furthermore, Saratoga Springs has strong access to external liquidity. It has issued GO bonds and frequently in the past 15 years. Although the state allows for what we view as permissive investments, we believe the city does not currently have aggressive investments with the majority of its investments in CDs and highly rated entities. The city has consistently had very strong liquidity and we do not expect a change to these ratios.

Adequate debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is adequate, with total governmental funds debt service at 7.1% of total governmental funds expenditures and with net direct debt at 110% of total governmental funds revenue. Overall net debt is low, in our view, at 2% of 2015 market value. Amortization of debt is also below average with 45.2% of principal to be retired in 10 years. The city's future debt plans are guided by management's five-year capital improvement plan, and we expect issuance of about \$6 million in fiscal 2016.

Saratoga Springs participates in the state's pension systems and provides other postemployment benefits (OPEB) through a single-employer, defined-benefit health care plan. The city has consistently funded 100% of its pension contributions in the past three fiscal years. Contributions will be \$4.9 million or 11.7% of expenditures in 2015. Saratoga Springs' last amortized payment was made on Dec. 15, 2014, and totaled \$135,936. The city's pension contribution also includes contributions in accordance with the labor agreements between the city and its police officers signed Oct. 27, 2006. As a result, Saratoga Springs is required to provide certain benefits to police personnel for past services under Section 384E and 384EB of the Police and Firemen Retirement System plan. These payments are being made over a 10-year period and will conclude in December 2016.

The city continues to fund OPEB contributions through pay-as-you-go financing, which was \$2.1 million, or about 25% of the annual OPEB cost, in fiscal 2014. As of Dec. 31, 2014, the OPEB unfunded actuarial accrued liability was \$77.7 million. Saratoga Springs' combined pension and OPEB costs in fiscal 2012 totaled about \$7.8 million, equivalent to 16.7% of expenditures. We believe the city's current pension contributions are high; however, we expect contributions to decline after the 2006 collective bargaining agreement expires in December 2016. At the same time, in the long term, we believe the city's unfunded OPEB liability could negatively affect budgetary performance if management is unable to mitigate the effects of the rising fixed costs associated with the liability.

Strong institutional framework

The institutional framework score for New York cities (other than the city of New York) is strong.

Outlook

The stable outlook reflects what Standard & Poor's considers Saratoga Springs' strong finances and access to the stable and diverse Albany-Schenectady-Troy MSA. Although pension and OPEB costs will continue to pressure the city's budgetary performance, we believe management will continue to make the necessary budget adjustments to maintain balanced operations. In our opinion, the city's strong management conditions rooted in good financial management policies and practices provide stability to the rating. Precluding a higher rating at this time, in our view, is the city's high pension and OPEB fixed costs as a percent of expenditures, as well as its lower wealth and income indicators relative to higher rated peers. Over time, we could raise the rating if Saratoga Springs maintains its very strong budgetary performance and flexibility and if management is able to mitigate the effects of the fixed costs associated with the city's long-term liabilities in pension and OPEB. Although unlikely, if the city's budgetary performance weakens substantially due to what we view as large pension and OPEB costs, and budget flexibility declines as a result, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- Institutional Framework Overview: New York Local Governments
- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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