

Summary:

**Saratoga Springs, New York; General
Obligation**

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Credit Profile

US\$9.81 mil pub imp serial bnds ser 2019 due 06/15/2040

<i>Long Term Rating</i>	AA+/Stable	New
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Saratoga Springs GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Saratoga Springs, N.Y.'s series 2019 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.

Officials will use series 2019 bond proceeds to finance various capital projects and equipment purchases in-line with the capital improvement program (CIP).

The rating reflects our opinion of the city's very strong economy and strong management team that has maintained very strong budgetary flexibility and strong budgetary performance during the past three fiscal years. We recognize the city continues to expand and grow.

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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental-fund level in fiscal 2017;
- Very strong budgetary flexibility, with available fund balance in fiscal 2017 at 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.2% of total governmental-fund expenditures and 4.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 99.1% of total governmental-fund revenue, and a large pension and other-postemployment-benefits (OPEB) obligation and 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 26,574, is 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 at 141% of the national level and per capita market value of \$176,928. Overall, market value has grown by 10.2% during the past year to \$4.7 billion in fiscal 2019. County unemployment was 4% in 2017.

Saratoga Springs is a commercial and industrial center for the surrounding area and a popular summer destination due to Saratoga Race Course, Saratoga Casino & Raceway, and Saratoga Performing Arts Center. In our opinion, its strong local economy and participation in the nearby Albany government sector have helped provide favorable economic trends and indicators.

Leading city employers include:

- Saratoga Hospital (2,100 employees),
- Skidmore College (1,120),
- Saratoga Springs City School District (1,010),
- Quad Graphics (850), and
- Wesley Health Care (680).

The city has seen steady commercial and residential development. Overall market value has grown significantly by almost \$500 million since fiscal 2012. Due to management's expectation for continued steady commercial and residential development, we believe modest market value and assessed value growth will likely continue. The city had an additional 903 residential units and 507,102 square feet of commercial space either already approved for construction or pending approval in 2019.

Strong management

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

The city implemented and formalized reserve-and-liquidity and debt-management policies in fiscal 2011. Management revised the reserve policy in fiscal 2015 to require the maintenance of unassigned general fund balance at 10%-25% of the budget. With city council approval, management can use amounts exceeding 25% to fund one-time expenses. If the balance decreases to less than 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's revenue and expenditure assumptions are conservative; it uses three years to five years of historical data when developing the budget and provides the council with quarterly reports on budget-to-actual results. 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 lacks a formal long-term financial plan, it maintains a six-year CIP that details funding for each project.

Strong budgetary performance

Saratoga Springs' budgetary performance is strong, in our opinion. The city had operating surpluses of 2.1% of expenditures in the general fund and 1.7% of expenditures across all governmental funds in fiscal 2017.

We have adjusted out bond-funded capital expenses. In the fiscal 2017 budget, the city appropriated \$1.8 million in fund balance and did not use any appropriated reserves. Mortgage tax, parking revenue, and ambulance revenue performed well compared with the budget. In addition, expenses are below budgeted levels. Property taxes generated 38.2% of general fund revenue in fiscal 2017, followed by nonproperty tax revenue, such as sales and hotel taxes and such, at 32.5% and state aid at 9.6%.

The fiscal 2018 budget of \$45.9 million included \$2.4 million in appropriated fund balance and reserves. However, for the second straight fiscal year, the city did not use any appropriated fund balance or reserves. Unaudited fiscal 2018 expectations are positive with an unaudited surplus of \$1.2 million. Despite some unexpected capital costs related to a weather event at city hall, revenue outperformed the expected level.

The fiscal 2019 budget is \$47.1 million with an appropriated fund balance of \$1.7 million, as well as \$300,000 in appropriated reserves. The increased budget relates to increased public-safety costs. Management reports expenditures are trending at or below expected budget levels. Due to recently strong budgetary performance, we expect management will likely maintain or improve budgetary performance.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2017 at 29% of operating expenditures, or \$12.6 million.

With the surplus in fiscal 2017, fund balance improved. During fiscal 2017, management changed funding for several restricted reserves. Overall, assigned and unassigned fund balance increased. We expect available fund balance will likely remain very strong, especially with the fiscal 2018 surplus.

While we do not expect an immediate effect on reserves, pressure could occur from possible retroactive pay for the city's fire contract, once settled, growing pension and OPEB costs.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 29.2% of total governmental-fund expenditures and 4.1x governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

In our view, Saratoga Springs has strong access to external liquidity if necessary, demonstrated by its access to the capital markets for GO bonds during the past 20 years. It does not invest aggressively because all holdings are in cash. In addition, it does not have any exposure to nonremote contingent-liability risks. The city has consistently had very strong liquidity, and 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 7.1% of total governmental-fund expenditures, and net direct debt is 99.1% of total governmental-fund revenue.

Overall net debt is low at 1.9% of market value, which is, in our view, a positive credit factor.

Debt amortization is below average with 45% of principal being retired during the next 10 years. Management plans to issue about \$7 million in new debt during the next two years for various capital projects. Due to below-average amortization and high pension and OPEB carrying charges, we expect the debt-and-contingent-liability profile will likely 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. Saratoga Springs' combined required pension and actual OPEB contribution totaled 15.3% of total governmental-fund expenditures in fiscal 2017: 9.2% represented required contributions to pension obligations and 6.1% represented OPEB payments. The city made 100% of its annual required pension contribution in fiscal 2017. The largest pension plan is 98.2% funded.

Saratoga Springs participates in the state-administered New York State & Local Employees' Retirement System and New York State & Local Police & Fire Retirement System. Management funds OPEB costs on a pay-as-you-go basis; costs were \$2.8 million in fiscal 2017. The unfunded actuarial accrued liability was \$111.2 million at Dec. 31, 2017. While pension costs have been decreasing, OPEB costs have been increasing by a similar amount. The city has looked into increasing the age of OPEB recipients and limiting future benefits through labor negotiations, but we think these measures will have a limited effect on the current unfunded liability. Therefore, we expect the combined pension and OPEB carrying charge will likely 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 strong 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 likely 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 Saratoga Springs were to manage elevated pension and OPEB costs, maintain strong budgetary performance, and increase economic indicators to levels we consider on par with 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 budget flexibility were to decrease 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
- 2018 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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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