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Ratings

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Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile		
US$7.428 mil GO		
Long Term Rating	AA+/Negative	New
Saratoga Springs GO		
Long Term Rating	AA+/Negative	Affirmed

Rating Action

S&P Global Ratings has revised the outlook on Saratoga Springs, N.Y.'s general obligation (GO) debt to negative from stable. At the same time, we have assigned our 'AA+' long-term rating to Saratoga Springs' $7.4 million series 2020 GO public improvement bonds and affirmed our 'AA+' rating on the city's GO debt outstanding.

Saratoga Springs' faith-and-credit pledge secures the bonds. Proceeds will be used for various capital projects.

Credit overview

The revision in outlook to negative reflects the city's dependence on economically sensitive revenue sources, including sales tax and hotel/motel tax, which are experiencing a steep decline given the national recession. We believe the drop in revenue could pressure the city's finances, and in turn affect overall credit quality.

Historically, the city of Saratoga has maintained balanced operations and very strong budgetary flexibility and liquidity, supported by its robust local economy centered on tourism and local attractions. To counterbalance the city's dependence on economically sensitive revenue, Saratoga maintains high levels of reserves to mitigate fluctuation in these revenue sources. However, in light of the current recession, exacerbated by the COVID-19 pandemic, which has led to a sudden stop in New York State's economy because of required stay-at-home orders, the city's tourism-dependent budget is under significant stress. (For more information on S&P Global Economics' latest economic forecast, see the article "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020.) The anticipated loss in Saratoga's sensitive revenues is between $14 million and $16 million for the current year. Although the city is modifying and reducing expenses, we expect the loss in revenue will outpace expenditure reductions.

The rating also reflects our view 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 operating results that we expect could deteriorate as a result of the current pandemic, and the city closing with operating surpluses in the general fund and at the total governmental fund level;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 32% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.5% of total governmental fund expenditures and 3.8x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 123.8% 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.

Environmental, social, and governance factors

The rating incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic, which has negatively affected the city's revenue base. Absent the implications of COVID-19, we consider the city's social risks in line with those of the sector. We analyzed Saratoga's environmental and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard..

Negative Outlook

Our outlook incorporates the likelihood that a national economic recession and resulting revenue challenges will have a negative effect on performance and reserves, but we could lower the rating if negative net operations cause the city's available general fund balance to substantially decline.. Alternatively, if the city is able to limit fund balance drawdowns and maintain balanced operations, we could revise our outlook to stable.

Credit Opinion

Very strong economy

We consider Saratoga Springs' economy very strong. The city, with an estimated population of 26,584, is located in Saratoga County in the Albany-Schenectady-Troy, NY MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income (EBI) of 151% of the national level and per capita market value of $196,167. Overall, the city's market value grew by 10.9% over the past year, to $5.2 billion in 2020. Furthermore, despite a historically low county unemployment rate of 3.5% in 2018, rapidly evolving economic conditions because of the pandemic have already affected the labor market (see "U.S. Jobs Market Buckles Under The Coronavirus Pandemic," published April 2, 2020). Given the county's historical exposure to increased unemployment during the Great Recession, which approached 7.0%, we will monitor the long-term effects of the current downturn on the labor market and the economy overall.

A large portion of Saratoga's economic activity involves tourism and education, with attractions including Saratoga Race Course, Saratoga Casino & Raceway, and Saratoga Performing Arts Center (SPAC). These attractions are vulnerable to the effects of social distancing and other decisions made to protect the health and safety of the community from COVID-19 spread. (For more information, see "The COVID-19 Outbreak Weakens U.S. State and

Local Government Credit Conditions," published April 2, 2020, on RatingsDirect).

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).

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 its 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 the 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 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 capital improvement plan that details funding for each project.

Adequate budgetary performance

Saratoga Springs' budgetary performance is adequate, in our opinion. The city had operating surpluses of 2.7% of expenditures in the general fund and of 3.7% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results will deteriorate as a result of the pandemic and its impact on the city's revenues.

Currently, the city is anticipating a significant decline in its economically sensitive revenue, such as sales and motel/hotel taxes. Official projections call for a $14-16 million decline in total city revenues, around one-third of the city's 2020 $48.5 million budget. Outside of the projected declines, year to date the city has also experienced a decline in year-over-year collections, as some entities have yet to pay their share of sales and motel/hotel taxes. To combat the expected loss in revenue, departments have been asked to reduce their budgets by 10%. The city has also broached the subject of 90-day furloughs, which could save the city $2-$3 million. It is currently unknown if the city's main summer attractions, such as Saratoga Performing Arts Center or the Saratoga Race Track, will be fully open or operational during peak summer tourism. Our expectation is the city's financial profile will decline over the short term and remained pressured throughout the current recessionary period.

We have adjusted our bond-funded capital expenses. Mortgage tax, parking revenue, and ambulance revenue performed well compared with the budgeted amounts. Additionally, expenses are below budgeted levels. Despite some unexpected capital costs related to a weather event at city hall, revenue outperformed the expected level. Property taxes generated 38.2% of general fund revenue in fiscal 2018, followed by non-property-tax revenue, such as sales and hotel taxes at 32.5% and state aid at 9.6%.

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. Expected year-end results for 2019 show an anticipated use of reserves of $859,000, significantly below the $2 million in appropriated reserves. Management reports expenditures trended as expected; however, the city was made aware of a change in revenue related to racetrack revenue in December, with an unanticipated decline of approximately $400,000.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 32% of operating expenditures, or $14.4 million.

While the city added to reserves to 2018, current expectations are for a slight draw in reserves in 2019. However, despite the draw, the city entered 2020 with very strong available reserves. We expect these reserves will help stabilize city operations. However, we also expect the city will use reserves, but the extent of this use is currently unknown. We expect the city will maintain reserves at least within its policy limits.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 28.5% of total governmental fund expenditures and 3.8x governmental debt service in 2018.

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 its holdings are in cash. Additionally, 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. We note the city is issuing a $5 million tax anticipation note in conjunction with the current issue, which will mature in June 2021.

Very weak debt and contingent liability profile

In our view, Saratoga Springs' debt and contingent liability profile is very weak. Total governmental fund debt service is 7.5% of total governmental fund expenditures and net direct debt is 123.8% of total governmental fund revenue. Overall net debt is low, at 1.5% 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 tentatively plans to issue new debt during the next two years for various capital projects; however, because of current economic conditions, the amount is not firm. As a result of the city's below-average amortization and high pension and OPEB carrying charges, we expect its debt and contingent liability profile will likely remain weak.

Pensions and other postemployment benefits

- We view pension and OPEB liabilities as a credit pressure for Saratoga, since costs represent a large portion of the budget, coupled with our expectation that costs will likely increase.
- Saratoga funds OPEB liabilities on a pay-as-you-go basis, which, because of claims volatility and medical-cost and demographic trends, is likely to lead to escalating costs. While the city has some legal flexibility to alter OPEB, it cannot prefund these costs, increasing the risk of these benefits creating budgetary pressure. Although the city has some legal flexibility to alter OPEB, it might not be politically attainable.
- Minimal pressure is expected from pension liabilities, as strong plan funding exists; however, the plans' aggregate cost method essentially creates an open amortization policy using a level percent pay basis assuming a 3.8% payroll growth rate, which we generally view negatively because the plans will never reach full funding and costs will increase each year.

As of Dec. 31, 2019, the city participates in:

- The New York State and Local Employees Retirement System, 98.24% funded, with a proportional share of the net pension liability equal to $1.4 million;
- The State and Local Police and Fire Retirement System, 96% funded, with a proportional share of the net pension liability equal to $3.4 million; and
- A defined-benefit health care plan that provides retiree health care until death, which is 0% funded and has an OPEB liability of about $118.8 million.

Saratoga Springs' combined required pension and actual OPEB contributions totaled 14.3% of total governmental fund expenditures in 2018. Of that amount, 8.5% represented required contributions to pension obligations and 5.8% represented OPEB payments. 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 the city of New York) is strong.