

RatingsDirect®

Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile

US\$4.278 mil GO pub imp (serial) bnds ser 2013 dtd 06/15/2013 due 06/15/2033

<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

Standard & Poor's Ratings Services assigned its 'AA+' rating and stable outlook to Saratoga Springs, N.Y.'s series 2013 general obligation (GO) bonds.

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

The rating reflects our view of Saratoga Springs':

- Participation in the diverse regional employment base of the Albany-Schenectady-Troy metropolitan statistical area;
- Strong wealth and income;
- Healthy operations that have contributed to what we consider strong finances; and
- Low debt, with limited capital and debt needs.

The city's full faith and credit pledge secures the bonds. We understand that officials intend to use bond proceeds to fund various capital projects.

Saratoga Springs, with a 2012 population estimate of 26,761, 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. We continue to view the economy as a key determinant of credit quality across the U.S. public finance sector in 2013 and 2014. Management indicates Saratoga Springs has benefited economically from continued development at the Luther Forest Technology Campus, a 1,414-acre technology park designed for nanotechnology manufacturing and research and development. GLOBALFOUNDRIES Inc., the anchor tenant, has completed its chip fabrication plant, which began construction in 2009. At full build-out, the company expects to generate about 1,600 new jobs for the area. In addition, the Saratoga Casino and Raceway recently announced it will invest \$30 million and build a 120-room hotel in Saratoga Springs in a bid to become a full-scale casino. The management team expects to hire 260 workers, increasing total employment at the Racino to 900 workers. Construction is expected to commence in 2014 with the expansion opening in 2015. According to management, Saratoga Springs expects to continue to see steady commercial and residential development in the near term.

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. Unemployment, at 6.3% as of March 2013, continues to decline below state (8.3%) and national rates (7.6%). Median household effective buying income is what we consider a strong 124% of the national level. Regional home price declines were fairly modest relative to other parts of the country, and there are signs the real estate market is improving. As a result, our current forecast reflects a modest rise in home prices and a jump in housing starts in 2013, with the housing recovery gaining steam in 2014. The city's median home price in 2012 was 60% higher than the national average. Assessed value (AV) has increased less than 1% annually, on average, in the past four fiscal years to \$3.1 billion in fiscal 2013. Full valuation is \$3.7 billion, or \$139,700 per capita, a level we consider extremely strong. Management expects the modest trend of AV growth to continue in the near term. Little taxpayer base concentration exists with the 10 leading taxpayers accounting for what we consider a very diverse 7.9% of AV.

Saratoga Springs has consistently maintained what we regard as, strong finances in the past three fiscal years. Unaudited fiscal 2012 figures, ended Dec. 31, 2012, indicate a \$1.8 million (5% of budget) operating surplus. Management attributes the positive operating performance to steady growth in revenues relative to budget, as well as the city taking over ambulance services from a private provider. As a result, the year closed with a general fund balance of \$12.7 million. Management considers \$8.3 million (assigned and unassigned), or what we view as a very strong 22.8% of budgeted expenditures, to be available; this is in accordance with the city's reserve policy. Liquidity was also good, in our opinion, with cash and equivalents of \$5.3 million, or about 53 days' operating liquidity.

The city's fiscal 2013 adopted budget totals \$39.1 million, a 5.6% increase over the adopted 2012 budget. The 2013 city tax rate remained flat and the tax levy decreased about 5.2%. Consequently, management can carry over 1.5% of the unused levy to fiscal 2014, providing additional flexibility in the next budget year if needed. Management indicates that there have been no major variances to the budget to date. Property taxes are Saratoga Spring's leading revenue source, accounting for 44% of general fund revenue in fiscal 2013, followed by another 32% from nonproperty taxes. In addition, six of the city's seven union contracts remain unsettled; in our view, this could put some downward pressure on Saratoga Springs' finances in the next few years. Management, however, indicates it has built contingencies into the budget to cover the likely negotiated outcomes.

Standard & Poor's still considers its assessment of Saratoga Spring's financial management practices "good" under its Financial Management Assessment (FMA). An FMA of good indicates financial practices exist in most areas but that governance 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. Its reserve policy requires the city to maintain an unassigned general fund balance between 10.0% and 12.5% of the budget. With city council approval, management can use amounts in excess of the 12.5% 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 will review 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. Investment management follows state guidelines.

After this issue, the city will have overall net debt, including overlapping entities, of \$59.6 million. In our opinion, overall debt is a moderate \$2,229 per capita, or a low 1.6% of market value. Debt service carrying charges remained a low, in our view, 7.9% of expenditures in fiscal 2011. We consider debt amortization slower than average with officials planning to retire 41% of principal over 10 years and 83% in 20 years. The city's future debt plans are guided by management's five-year capital improvement plan, which has about \$20 million in future projects.

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 over the past three fiscal years. Contributions were \$4.7 million, or 12.7% of general fund expenditures, in 2012. It continues to fund OPEB contributions through pay-as-you-go financing, which was \$2.2 million, or about 27.8% of the annual OPEB cost, in fiscal 2012. As of Dec. 31, 2012, the OPEB unfunded actuarial accrued liability (UAAL) was \$122.8 million. When this UAAL is added to the city's debt, overall net debt increases to what we view as a high \$6,819 per capita, or a moderate 4.8% of market value.

Outlook

The stable outlook reflects what Standard & Poor's considers Saratoga Springs' strong finances and access to a stable and diverse regional economy. We believe management will continue to make the necessary budget adjustments to maintain balanced operations, as well as continue to adhere to its reserve and debt management policies. However, if reserves deteriorate materially due to ongoing labor negotiations or (while unlikely) the city's pension and OPEB costs increase, we could lower the rating.

Related Criteria And Research

- U.S. State And Local Government Credit Conditions Forecast, April 4, 2013
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

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