S&P Global Ratings

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Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile		
US$6.168 mil GO pub imp (serial) bnds ser 2021 dtd 06/17/2021 due 06/15/2051		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Outlook Revised

Rating Action

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA+' rating on Saratoga Springs, N.Y.'s general obligation (GO) long-term debt. At the same time, we assigned our 'AA+' long-term rating to the city's $6.168 million series 2021 GO public improvement bonds. The outlook is stable.

The outlook revision reflects our view that Saratoga Springs has been able to absorb the economic and financial costs of the past year while still maintaining its very strong credit quality. Additionally, forward-looking estimates for the current year and near future are balanced-to-positive. Unaudited regulatory update documents show the city's available fund balance declined in 2020 by approximately $2.4 million but remained near 25% of expenditures, which we consider very strong. Positive budget-to-actual trends for 2021 revenues support our view that performance is likely to remain near break-even in the near term. Housing activity in the city has been robust, sales taxes have rebounded, and major tourist attractions have reopened. We therefore expect Saratoga Springs' financial and economic positions to remain in line with those of similarly-rated peers.

Saratoga Springs' faith-and-credit pledge secures the new and existing bonds. Proceeds will be used to finance various capital improvements, including approximately $2.9 million for an LED lights project projected to result in cost savings over time.

Credit overview

Historically, Saratoga Springs 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 its dependence on economically sensitive revenue, the city maintains high levels of reserves to mitigate fluctuation in these revenue sources. As a result of the pandemic and 2020 recession, its state aid, sales tax, and tourism-related revenues trailed their budgeted figures. Even so, the city's overall financial position remains strong and in line with similarly rated peers. It also issued approximately $11.3 million in tax anticipation notes (TANs) in 2020, although it projects it will retire at least $9.3 million in 2021. Although we are optimistic that the economic recovery is starting to accelerate in the U.S., top-line growth and labor market developments could be uneven, and we will continue to monitor the city for material economic and financial changes. (For more information on COVID-19 and the federal stimulus' effect on the U.S. public finance sector, see "State, Local Government, School District, And Charter School Sector Views Revised Back To Stable," published March 24, 2021, on RatingsDirect.)

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 balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 21.0% of total governmental fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 7.3% of expenditures and net direct debt that is 139.9% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan or mechanism to sufficiently address it, 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 and how it affects demand for Saratoga Springs' tourist attractions and revenues. Absent the implications of COVID-19, we consider Saratoga Springs' social risks in line with those of the sector. The outlook revision partly reflects the abatement of health and safety risks stemming from the pandemic represented in the easing of social restrictions as well as general economic stability in the city. We analyzed its environmental risks relative to its economy, management, financial measures, and debt and liability profile, and determined that they are in line with our view of the sector standard. In our view, given the lack of state statutory authority for local governments in New York State to prefund OPEB contributions through a dedicated trust, we believe governance risks are somewhat elevated compared with those of peers where OPEBs are an implicit subsidy or where they are more easily modified.

Stable Outlook

Downside scenario

We could lower the rating if continued negative operating results cause the city's available general fund balance to substantially decline or if it was unable to align recurring revenues and expenditures after federal stimulus programs expire.

Upside scenario

We could raise the rating if the city maintains its very strong financial position while reining in elevated fixed costs and formalizing additional long-term financial planning.

Credit Opinion

Very strong economy

We consider Saratoga Springs' economy very strong. The city, with ad population of 27,215, is in Saratoga County in the Albany-Schenectady-Troy MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 152% of the national level and per capita market value of $195,625. Overall, market value grew by 2.1% over the past year to $5.3 billion in 2021.

The county unemployment rate was 3.4% in 2019 and 6.7% in 2020. Rapidly evolving economic conditions as a result of COVID-19 affected the labor market in uneven ways (see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," March 24, 2021). Despite the city's tourism sector and the region's seasonal homes, unemployment in Saratoga County was the fourth-lowest among the state's 62 counties. Saratoga Springs' unemployment rates have historically remained below state and county levels. We will monitor the longer-term effects of the current downturn on the labor market and the economy overall.

Officials continue to report optimism from storeowners, and the city has recorded strong sales tax receipts starting with fourth-quarter 2020 results. First-quarter 2021 receipts were the strongest quarterly print that the city has generated. Management also provided housing realty data reflecting a 9.4% annual increase in sale prices in 2020, illustrating heightened demand for residential property in the city over the past year. It notes that the real estate market also continues to thrive. March 2021 mortgage tax receipts were approximately 60% higher than they were for the same period in 2019.

A large portion of Saratoga Springs' economic activity involves tourism and education, with attractions including Saratoga Race Course, Saratoga Casino & Raceway, and Saratoga Performing Arts Center (SPAC). These attractions were vulnerable to the effects of social distancing and other decisions made to protect the health and safety of the community from COVID-19 spread. The Saratoga Race Course opened on July 16, 2020, but remained closed to spectators. It is expected to open from July 15 to Sept. 6 in 2021 at 20% capacity, although officials project the capacity limit will increase absent worsening COVID-19 trends in the state. SPAC events are also slated to begin in June (revised from the July opening expected earlier this year). Saratoga Casino reopened in September 2020. The city's convention center has events booked for June and expects activity to revive later in the year. Management notes that hotel occupancy rates are climbing and expects activity will approximate 2019 levels near the end of summer. To some extent, these tourist activity projections assume a continued easing of social distancing requirements and progress minimizing COVID-19's spread and case count. A surge in cases, including from new variants, could disrupt economic activity's rebound. Additionally, we will continue to monitor for demand for tourism, although current trends from Saratoga Springs are positive.

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. Highlights include:

- 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.

- While the city lacks a formal long-term financial plan, it maintains a six-year capital improvement plan that details funding for each project.
- 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.
- Its debt policy adheres to state statutes and contains qualitative stipulations for structuring, issuing, and managing debt.
- A formalized reserve and liquidity policy requires 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.

Adequate budgetary performance

Saratoga Springs's budgetary performance is adequate, in our opinion, reflecting balanced operating results in the general fund of 0.3% of expenditures in 2019, but a 2019 deficit result across all governmental funds of negative 3.9%, as well as an operating deficit in 2020. Our 2019 operating result calculation adjusts for one-time transfers for capital spending. Property taxes generated 39% of general fund revenue in fiscal 2019, followed by nonproperty tax revenue, such as sales and hotel taxes at 32% and state aid at 10%.

Unaudited results for fiscal 2020 show general fund expenditures outpacing revenues by approximately $3.0 million, or 6.8% of expenditures. The city experienced a decline in its economically sensitive revenues, such as sales and hotel/motel taxes; however, these declines were smaller than management initially expected. Management projections from May 2020 called for a $14 million-$16 million decline in total revenues, around one-third of the city's 2020 $48.5 million budget. Unaudited results were considerably more benign: General fund revenues totaled $41.3 million, down approximately $5 million year over year, and general fund expenditures totaled $44.3, down approximately $3 million year over year, reflecting midyear expense adjustments. Property tax collections remained strong and mortgage taxes performed very well, although hotel/motel taxes, sales taxes, and fee-based revenue were all down.

The fiscal 2021 budget totals $46.1 million and includes the use of $124,000 in fund balance, $1.0 million from the sale of three municipal properties, and a 6% property tax increase. The revenue budget also includes anticipated federal aid, which management noted that the state comptroller had encouraged. The budget assumed $5.0 million in federal aid, although current American Rescue Plan figures show it will receive approximately $3.9 million in 2021 and $3.9 million in 2022. However, we believe positive budget-to-actual variances could more than offset this shortfall. New York local government finance organizations had initially suggested the state may reduce aid receipts to offset the additional federal funding, although this now appears unlikely. The city's budget held back approximately 40% of proposed Video Lottery Terminal state aid, and it now anticipates receiving the full amount. Strong first-quarter sales tax receipts led officials to project the city would outperform budgeted receipts, which was reduced 33% in the 2021 budget from the original 2020 budgeted number. Management projects that positive revenue trends could result in net revenue overages of nearly $2.9 million for 2021. The expenditure budget also remains compressed for the year. Therefore, we expect performance will be at least adequate over the next two years. Because federal stimulus funding was included in operating revenues for 2021, and management is likely to include it in the 2022 operating budget as well, we will continue to monitor for the city's ability to align recurring revenues and expenses following the stimulus program's expiry. However, it has a track record of producing structurally aligned budgets even with somewhat cyclical revenues.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 29% of operating expenditures, or $13.2 million.

Saratoga Springs gradually built its fund balance over the last decade, which has helped maintain its overall credit quality despite the recent fund balance draws. Regulatory financial statements show that assigned and unassigned fund balance totaled $10.8 million, which would be approximately 24.4% of general fund expenditures. The amount of fund balance anticipated in the 2021 budget is lower than it was in 2019 or 2020 at $124,000, which provides a better base to generate fund balance at year-end. With unassigned fund balance at approximately 20% of budgeted expenditures, the city remains in line with its 10%-25% policy limits. We believe that positive revenue trends should allow it to maintain fund balance at least near its current levels. Therefore, we do not expect to change our view of flexibility in the near term.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 21.0% of total governmental fund expenditures and 2.9x governmental debt service in 2019.

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. The city has consistently had very strong liquidity, and we do not expect these ratios to change. We note that it sold a one-year $6.3 million TAN in June 2020 and privately placed a one-year $5.0 million TAN in December. Neither note has unusual clauses of default or acceleration provisions, nor do they represent nonremote contingent-liability risks, in our view. The city intends to retire the June note in 2021 and projects it will retire at least $3.0 million of the December note and roll the remaining $2.0 million. If the positive budget-to-actual trends the city has realized so far continue throughout 2021, management estimates it will retire the full note.

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 7.3% of total governmental fund expenditures, and net direct debt is 139.9% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is, in our view, a positive credit factor. In our opinion, a credit weakness is Saratoga Springs' large pension and OPEB obligation, without a plan or mechanism in place that we think will sufficiently address it.

Following this issuance, we calculate that the city will have approximately $88 million in direct debt outstanding, including TANs and enterprise debt. 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 very weak.

Pensions and other postemployment benefits:

- We view pension and OPEB liabilities as a credit pressure for Saratoga Springs, since costs represent a large portion of the budget, coupled with our expectation that costs will likely increase.
- Saratoga Springs 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 OPEBs, it cannot prefund these costs, increasing the risk of these benefits creating budgetary pressure, and altering them 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 participated in:

- The New York State and Local Employees Retirement System, 96.3% funded, with a proportional share of the net pension liability (NPL) equal to $3.1 million.
- The State and Local Police and Fire Retirement System, 95.1% funded, with a proportional share of the NPL equal to $5.8 million.
- A defined-benefit health care plan that provides retiree health care until death, which is 0% funded and has an OPEB liability of about $111.9 million.

Saratoga Springs' combined required pension and actual OPEB contributions totaled 13.8% of total governmental fund expenditures in 2019. Of that amount, 8.1% represented required contributions to pension obligations, and 5.7% represented OPEB payments. The city made its full annual required pension contribution in 2019 and 2020. It 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.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019