S&P Global
Ratings

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Summary:

Saratoga Springs, New York; General Obligation

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Summary:

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Credit Profile		
US$17.137 mil public imp bnds ser 2022 dtd 06/23/2022 due 06/15/2051		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Saratoga Springs, N.Y.'s roughly $17.137 million series 2022 public-improvement general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

Saratoga Springs' faith-and-credit pledge secures the series 2022 and existing bonds.

Officials intend to use series 2022 bond proceeds to finance various capital improvements.

Credit overview

Saratoga Springs expects significant surplus results for fiscal 2021 because housing activity has been robust, sales taxes have rebounded, and major tourist attractions have reopened. Officials expect fund balance to grow, replenishing reserves spent during fiscal 2020. In our opinion, robust financial-management policies and access to the broad, diverse metropolitan statistical area provide additional rating stability.

The rating reflects our view of Saratoga Springs':

- Continued property tax base expansion;
- Good financial-management policies and practices under our Financial Management Assessment (FMA) methodology and a strong Institutional Framework;
- Expected return to positive operations while maintaining very strong reserves, liquidity; and
- High debt relative to its budget, with elevated fixed costs, specifically its other postemployment benefit (OPEB) liability.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG)) risks relative to Saratoga Springs' economy, management, financial measures, and debt-and-liability profile and have determined all are credit neutral. In our view, due to the lack of state statutory authority for local governments in New York State to prefund OPEB contributions through a dedicated trust, we think governance risks are somewhat elevated compared with peers where OPEB is an implicit subsidy or where OPEB is more easily modified.

Stable Outlook

Downside scenario

We could lower the rating if negative operating results were to cause available general fund balance to decrease substantially or if management were unable to align recurring revenue and expenditures.

Upside scenario

We could raise the rating if management were to maintain strong finances while reducing elevated fixed costs and formalizing additional long-term financial planning.

Credit Opinion

A desirable location in the Capital District continuing to see residential, commercial development

Saratoga Springs is a commercial and industrial center for the surrounding area, as well as a popular summer destination. We think Saratoga Springs' strong economy and participation in the nearby Albany government sector have helped provide favorable economic trends and indicators. A large portion of Saratoga Springs' economic activity involves tourism and education with attractions including Saratoga Racecourse, Saratoga Casino & Raceway, and Saratoga Performing Arts Center. Housing demand remains high with historical highs in mortgage recording taxes.

The city expects tax base growth due to numerous housing and commercial projects under development. A few of the housing projects are looking to address the housing needs of Saratoga's summer workforce. We note the city is facing several tax appeals from its leading taxpayers, the materiality of which is unknown; however, we do not expect these appeals would materially affect economic metrics. We expect the city will likely maintain very strong economic indicators.

Transparent and frequent reporting

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 city 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-management policy adheres to state statutes and contains qualitative stipulations for structuring, issuing, and managing debt.

A formal reserve and liquidity policy requires maintaining unassigned general fund balance at 10%-25% of the budget; with the council's 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.

Return-to-positive operations after COVID-19-induced deficits

We have adjusted for transfers and one-time capital expenses. COVID-19 and subsequent stay-at-home orders greatly affected fiscal 2020 results. Property tax collections remained strong, and mortgage taxes performed very well;

however, hotel-and-motel taxes, sales taxes, and fee-based revenue were all down.

Fiscal 2021 revenue outperformed budgeted levels while expenses remained low. Based on projections, the city expects a $9.3 million surplus. While this could change as the city finalizes its audit, fiscal 2021 operations replenished fund balance used in fiscal 2020. Revenue highlights include:

- Hotel taxes increased by 120% compared with fiscal 2020,
- Sales taxes increased by 35.34%, and
- Mortgage taxes increased by 34%.

Utilities taxes, franchise fees, ambulance fees, and admission taxes were all higher than previous years. Officials are projecting expenses were $3.7 million underbudget. We note the city used a portion of its $7.8 million American Rescue Plan Act of 2021 funds for revenue replacement.

Based on fiscal 2021 annual update documents, available fund balance grew to $23 million. The expected unassigned fund balance for fiscal 2021 is greater than 25% of the fiscal 2022 budget, triggering the use of excess balance. Management reports budget-to-actual results are in-line with expectations, and we think positive revenue trends should allow it to maintain fund balance at least near current levels.

We note that with the improvement in performance in fiscal 2021, the city did not need to issue tax anticipation notes like it had in 2020. The city does not invest aggressively, and its holdings are in cash. The city has consistently had very strong liquidity, and we do not expect these ratios to change.

For the fiscal 2022 budget, the city increased revenue and expenditure assumptions. The city revised its economically sensitive revenue higher, increasing sales tax revenue by 27% from fiscal 2021 budget levels, while increasing assumptions for other revenue. The largest expenditure increase is the result of salary changes for employees that had previously agreed to hold off on increases during the height of COVID-19. The budget also includes the remaining balance of federal funding for revenue replacement; we will continue to monitor the city's ability to align recurring revenue and expenses following the stimulus program's expiration. However, it has a record of producing structurally aligned budgets even with somewhat cyclical revenue. Management reports budget-to-actual results are strong, and it expects a strong summer based on the number of events planned and current demand.

Manageable debt

Management tentatively plans to issue new debt during the next two years for various capital projects; however, based on the city's capital plan, the largest possible issuance would likely be for a water-infrastructure project. Due to 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 OPEB highlights

We view pension and OPEB liabilities as a credit pressure for Saratoga Springs because costs represent a large portion of the budget, coupled with our expectation 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 OPEB, it cannot prefund these costs, increasing the risk of these benefits creating budgetary pressure; altering them might not be politically attainable. Management expects minimal pressure from pension liabilities because strong plan funding exists.

As of Dec. 31, 2020, the city participated in:

- New York State & Local Employees' Retirement System, which is 86.39% funded, with a proportional share of the net pension liability equal to $11.7 million;
- New York State & Local Police & Fire Retirement System, which is 84.86% funded, with a proportional share of the net pension liability equal to $18 million; and
- Saratoga Springs' defined-benefit, health-care plan that provides retiree health care until death, which is 0% funded, with an OPEB liability of about $136.5 million.

Strong Institutional Framework

The Institutional Framework score for New York cities, other than New York City, is strong.

Saratoga Springs, New York Select Key Credit Metrics

	Most recent	--Historical information--		
		2020	2019	2018
Very strong economy				
Projected per capita effective buying income as a % of U.S.	151.2			
Market value per capita ($)	201,851			
Population		27,027	27,215	26,584
County unemployment rate(%)		6.7		
Market value ($000)	5,455,421	5,214,899		
10 leading taxpayers as a % of taxable value	7.0			
Strong budgetary performance				
Operating fund result as a % of expenditures		(6.8)	0.3	2.7
Total governmental fund result as a % of expenditures		(5.1)	(3.9)	3.7
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		24.5	28.7	32.0
Total available reserves ($000)		10,818	13,189	14,448
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		31.7	21.0	28.5
Total government cash as a % of governmental fund debt service		345.2	288.6	381.1
Strong management				
Financial Management Assessment	Good			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		9.2	7.3	7.5
Net direct debt as a % of governmental fund revenue	162.2			
Overall net debt as a % of market value	2.0			
Direct debt 10-year amortization (%)	48.2			
Required pension contribution as a % of governmental fund expenditures		7.8		

Saratoga Springs, New York Select Key Credit Metrics (cont.)	Most recent	--Historical information--		
		2020	2019	2018
Other postemployment benefits actual contribution as a % of governmental fund expenditures		5.0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

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
- 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
- 2021 Update Of Institutional Framework For U.S. Local Governments
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022