

RatingsDirect®

Summary:

Saratoga Springs, New York; General Obligation

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Summary:

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Credit Profile

US\$3.029 mil GO bnds ser 2016 due 06/15/2033

Long Term Rating

AA+/Stable

New

Saratoga Springs GO

Long Term Rating

AA+/Stable

Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to Saratoga Springs, N.Y.'s series 2016 general obligation (GO) bonds and affirmed its 'AA+' rating on the city's existing GO debt. The outlook is stable.

The city's faith and credit pledge secures the bonds. We understand that officials intend to use bond proceeds to finance various capital projects and equipment purchases in line with its capital improvement program (CIP).

The rating reflects what we view as Saratoga Springs':

- 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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.4% of total governmental fund expenditures and 2.8x governmental debt service, as well as access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 8.1% of expenditures, net direct debt at 105.2% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) 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 26,357, is in eastern upstate New York, approximately 30 miles north of Albany, in Saratoga County. It is in the Albany-Schenectady-Troy MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 130% of the national level and per capita market value of \$152,143. Overall, market value grew by 3.3% over the past year to \$4.0 billion in 2016. The county unemployment rate was 4.2% in 2015.

The city is a commercial and industrial center for the surrounding area, as well as a popular summer destination due to the Saratoga Race Course, the Saratoga Casino and Raceway, and the Saratoga Performing Arts Center. Additionally, the strong economy and participation in nearby Albany's government sector have helped provide it with favorable

economic trends and indicators. Top employers in the city include:

- Saratoga Hospital (1,850 employees);
- Skidmore College (1,120);
- Saratoga Springs City School District (1,010);
- Stewart's Ice Cream (990); and
- Quad Graphics (800).

The city has seen steady commercial and residential development in recent years, resulting in a 7.1% increase in market value since fiscal 2012. Assessed value (AV), over that same timeframe, has remained mostly flat, increasing 2% to \$3.1 billion in fiscal 2016. There is little concentration in the tax base, as the 10 leading taxpayers account for what we consider a very diverse 7.5% of AV. Given management's expectation for continued steady commercial and residential development (including 640 residential units and 685,727 commercial square feet in developments recently constructed, under construction, or pending construction), we expect the modest growth trend in market value and AV to continue.

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 a reserve and liquidity policy, as well as a debt management policy in fiscal 2011. The reserve policy was revised in 2015 and now requires Saratoga Springs to maintain an unassigned general fund balance at 10%-25% of the budget. With city council approval, management can use amounts in excess of the 25% 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 contains qualitative stipulations for the structuring, issuing, and managing debt. Management is conservative with its revenue and expenditure assumptions, using three to five years of historical data when developing the budget, and provides the council with quarterly budget-to-actual reports. The city's investment management policy follows state guidelines, and outside of what is presented in the audit, the city's cash balances are informally reported to the council at various times throughout the year. While the city does not have a formal long-term financial plan, it maintains a six-year CIP, which details the funding sources for each project.

Strong budgetary performance

Saratoga Springs' budgetary performance is strong, in our opinion. The city had operating surpluses at 1.9% of expenditures in the general fund and 2.7% across all governmental funds in fiscal 2015.

We note fiscal 2015 results were obtained from the city's Annual Update Document, which we consider a reliable source, despite being unaudited.

The city has exhibited strong budgetary performance with positive operating results in each of the last six fiscal years, including an \$812,000 surplus in fiscal 2015. Management attributes the positive results in fiscal 2015 partly to strong sales tax and occupancy tax revenues. Property taxes accounted for 38.3% of general fund revenue in fiscal 2015, followed by sales taxes (26.5%) and state aid (9.8%). Sales tax revenues remain strong, and are up 5% from this time

last year, according to management. As a result of the strong sales tax performance and cost savings from a mild winter, management expects at least balanced results in fiscal 2016. Given the city's strong historical results, and management's expectations for fiscal 2016, we expect the city's budgetary performance to remain strong.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 29% of operating expenditures, or \$11.9 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 28% of expenditures in 2014 and 29% in 2013.

In 2014, the city's balance sheet had a \$1.2 million due from because of a general fund loans to the water and sewer funds for operations. Management states that the sewer fund has fully paid back its loan, and that the water fund will complete paying back its loan in fiscal 2016. With management's expectations for at least balanced results in fiscal 2016, the city's adopted fund balance policy discussed above, and with no plans to significantly draw down reserves, we expect the city's available fund balance will remain very strong.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 22.4% of total governmental fund expenditures and 2.8x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is demonstrated by its access to the capital markets for GO bonds within the last five years. It does not invest aggressively, as all of its holdings are in cash, and it is not exposed to any nonremote contingent liability risks. The city has consistently had very strong liquidity and we do not anticipate a change to these ratios.

Weak debt and contingent liability profile

In our view, Saratoga Springs' debt and contingent liability profile is weak. Total governmental fund debt service is 8.1% of total governmental fund expenditures, and net direct debt is 105.2% of total governmental fund revenue. Overall net debt is low at 1.8% of market value, which is, in our view, a positive credit factor.

The city's debt amortization is below average, with 46.3% of principal to be retired over the next 10 years. Management plans on issuing about \$10.5 million in new debt over the next two years for various capital projects. The city's debt and contingent liability profile declined to what we consider weak, as a result of rising debt service carrying charge. Given the below-average amortization of the city's debt, and the high pension and OPEB carrying charge, we expect the debt and contingent liability profile to remain weak.

In our opinion, a credit weakness is Saratoga Springs' large pension and OPEB obligation. Its combined required pension and actual OPEB contributions totaled 14.7% of total governmental fund expenditures in 2015. Of that amount, 10.1% represented required contributions to pension obligations, and 4.5% represented OPEB payments. The city made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 99.0%.

The city participates in the state-administered New York State and Local Employees' Retirement System (ERS) and the New York State and Local Police and Fire Retirement System (PFRS), which are 97.9% and 99% funded, respectively, as of March 31, 2015. The city's combined ERS and PFRS required contribution decreased for the second consecutive

year to \$4.9 million in fiscal 2015, down from \$5.2 million in fiscal 2013. Its combined contribution is budgeted to fall further to \$4.7 million in fiscal 2016.

OPEB costs are funded on a pay-as-you-go basis, and were \$2.2 million in fiscal 2015. The city's unfunded actuarial accrued liability was \$82 million, as of Dec. 31, 2015. While the city's pension costs have been falling, OPEB costs have been rising by a similar amount. We therefore expect the combined pension and OPEB carrying charge to remain elevated over the next two years.

Strong institutional framework

The institutional framework score for New York cities (other than the city of New York) 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. The city's very strong economy and access to the stable and diverse Albany-Schenectady-Troy MSA lend further stability to the rating. Although pension and OPEB costs will continue to pressure the city's budgetary performance, we believe management will continue to make the necessary budget adjustments to maintain balanced operations. As such, we do not anticipate changing the rating during the two-year outlook horizon.

Upside scenario

If the city can manage its elevated pension and OPEB costs and maintain strong budgetary performance, and economic indicators increase to levels on par with its higher rated peers, we could consider raising the rating.

Downside scenario

Although unlikely, if the city's budgetary performance weakens substantially due to what we view as large pension and OPEB costs, and budget flexibility declines as a result, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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