S&P Global
Ratings

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Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile		
US$6.778 mil pub imp (serial) bnds ser 2018 dtd 06/20/2018 due 06/15/2042		
Long Term Rating	AA+/Stable	New
US$5.82 mil pub imp rfdg (serial) bnds ser 2018 due 07/01/2039		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Saratoga Springs, N.Y.'s series 2018 public improvement general obligation (GO) serial bonds and public improvement refunding bonds. At the same time, we affirmed our 'AA+' long-term rating on the city's existing GO debt. The outlook is stable.

The city's faith and credit secures the bonds.

Officials will use the series 2018 public improvement bond proceeds to finance various capital projects and equipment purchases in line with their capital improvement program (CIP). The city will use the refunding bond proceeds to current refund debt outstanding for net present value savings of 11.4%.

The rating reflects our opinion 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;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2016, which closed with slight operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 22.3% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 7.0% of expenditures and net direct debt that is 112.6% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3.0% 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 26,395, is located in Saratoga County in the Albany-Schenectady-Troy MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 140% of the national level and per capita market value of $161,685. Overall, the city's market value grew by 1.4% over the past year to $4.3 billion in 2018. The county unemployment rate was 3.8% in 2016.

Saratoga Springs is a commercial and industrial center for the surrounding area, as well as a popular summer destination as a result of Saratoga Race Course, Saratoga Casino & Raceway, and Saratoga Performing Arts Center. In addition, we believe Saratoga Springs' strong economy and participation in the nearby Albany government sector have helped provide favorable economic trends and indicators. Leading city employers 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 (850).

The city has seen steady commercial and residential development recently, resulting in a 12% increase in market value since fiscal 2013. Assessed value (AV), over that same period, has remained mostly flat. AV increased by 3% to $3.15 billion in fiscal 2017. There is little property tax base concentration with the 10 leading taxpayers accounting for a very diverse 7.7% of AV. Given management's expectation for continued steady commercial and residential development, including 499 residential units and 281,114 commercial square feet of developments recently constructed or under construction, we believe modest market value and AV growth will likely continue. The city had an additional 575 residential units and 319,132 commercial square feet either already approved for construction or pending approval in 2017.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that 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 the reserve policy in fiscal 2015 to require the maintenance of an unassigned general fund balance at 10% to 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 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. The city's debt policy adheres to state statutes and contains qualitative stipulations for structuring, issuing, and managing debt.

Management is what we consider conservative with revenue and expenditure assumptions; it uses three years 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; 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 CIP that details funding for each project.

Strong budgetary performance

Saratoga Springs' budgetary performance is strong, in our opinion. The city had slight operating deficits of 0.7% of expenditures in the general fund and of 1.3% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could improve from 2016 results in the near term. We note that fiscal 2016 results were obtained from the city's annual update document, which we consider a reliable source despite its being unaudited.

We have adjusted out the one-time expense of a lawsuit settlement. The city did budget and expect to use reserves. Despite the additional one-time expense of a lawsuit settlement, the city did end 2016 better than the appropriated fund balance in the budget.

The city did see a slight decline in occupancy taxes in 2016, but an increase in sales tax revenue partly offset that. Property taxes accounted for 37.3% of general fund revenue in fiscal 2016, followed by sales taxes (28.2%) and state aid (7.8%).

The city's 2017 budget of $45.1 million included $1.8 million in appropriated fund balance. Unaudited expectations for 2017 are positive, with a $911,000 surplus. Mortgage tax, parking revenue, and ambulance revenue performed well in comparison to the budget. In addition, expenses trended below budgeted levels.

Based on the city's expected year-end 2017 result, coupled with our assumption that total governmental expenditures will trend positively with adjustments, we do expect the city's budgetary performance to improve relative to 2016 levels.

For 2018, the budget is $45.9 million. Management reports expenditures are trending at or below expected budgeted levels. Revenue is coming in stronger in the first half 2018 when compared with the previous year. Given the city's history of adequate-to-strong budgetary performance, we would expect the city to maintain or improve its budgetary performance.

Very strong budgetary flexibility

Saratoga Springs' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 26% of operating expenditures, or $11.2 million.

While the city spent down reserves in 2016, the current level is still very strong and in line with its formal fund balance policy. Prior to 2016's decision to use fund balance, the city has been able to replenish the fund balance appropriated. The city is expecting reserves to increase in 2017, keeping reserves in line with the city's fund balance policy. We expect the city's available fund balance will remain very strong.

While we do not expect an immediate impact on reserves, pressure may arise from growing pension and OPEB costs.

Very strong liquidity

In our opinion, Saratoga Springs' liquidity is very strong, with total government available cash at 22.3% of total governmental fund expenditures and 3.2x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary, as demonstrated by its access to the capital markets for GO bonds within the past five years. It does not invest aggressively, as all of its holdings are in cash, and 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 7.0% of total governmental fund expenditures, and net direct debt is 112.6% of total governmental fund revenue. Overall net debt is low at 1.9% of market value, which is, in our view, a positive credit factor.

The city's debt amortization is below average, with 45% of principal to be retired over the next 10 years. Management plans on issuing about $5.2 million in new debt over the next two years for various capital projects. 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, without a plan in place that we think will sufficiently address the obligation. Saratoga Springs' combined required pension and actual OPEB contributions totaled 15.0% of total governmental fund expenditures in 2016, with 9.5% representing required contributions to pension obligations and 5.5% representing OPEB payments. The city made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 93.5%.

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). OPEB costs are funded on a pay-as-you-go basis, and were $2.6 million in fiscal 2016. The city's unfunded actuarial accrued liability was $105 million as of Dec. 31, 2016. While the city's pension costs have been falling, OPEB costs have been rising by a similar amount. The city has looked into increasing the age of the OPEB recipients and limiting future benefits through labor negotiations, but these measures will have a limited impact on the current unfunded liability. We therefore expect the combined pension and OPEB carrying charge to remain elevated.

Strong institutional framework

The institutional framework score for New York cities, other than New York City, 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 broad and diverse Albany-Schenectady-Troy 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 budget adjustments it deems necessary to maintain balanced operations. Thus, 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, maintain strong budgetary performance, and increase its economic indicators to levels on par with those of its higher-rated peers, we could consider raising the rating.

Downside scenario

Although unlikely, if the city's budgetary performance weakens substantially as a result of increased fixed costs, and budget flexibility declines as a result, the rating could come under pressure.