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Summary:

Saratoga Springs, New York; General Obligation

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Credit Profile		
US$6.645 mil GO pub imp (serial) bnds ser 2012 dtd 05/23/2012 due 05/15/2013-2039		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Saratoga Springs, N.Y.'s general obligation (GO) debt one notch to 'AA+' from 'AA'. The outlook is stable.

The upgrade reflects our assessment of the city's diverse and expanding economy and increasing reserves.

In addition, Standard & Poor's assigned its 'AA+' rating and stable outlook to the city's series 2012 public improvement GO bonds.

The rating also reflects our opinion of the city's:

- 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. Officials intend to use bond proceeds to fund various capital projects.

Saratoga Springs, with a population estimate of 29,400, 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; it, however, is best known for the Saratoga Race Track and the performing arts center, as well as Skidmore College, which is one of the city's leading local employers. In addition, Saratoga Springs expects to benefit from continued development at the Luther Forest Technology Campus, a 1,414-acre technology park designed for nanotechnology manufacturing and research and development. GLOBALFOUNDRIES, the anchor tenant, is nearing completion of its chip fabrication plant, which began construction in 2009. The facility was expanded in 2010, and company officials indicate chip production is on track to begin in mid-2012. At full buildout, the company expects to generate about 1,600 new jobs for the area.

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.

Unemployment, at 6.1% in 2011, continues to decline below state and national rates. Median household effective buying income is, what we consider, a strong 123% of the national level. Assessed value (AV) has increased by an average of less than 1% annually over the past four fiscal years to $3.1 billion in fiscal 2012. Full valuation is $3.7 billion, or $127,000 per capita, a level we consider extremely strong. Little taxpayer base concentration exists with the 10 leading taxpayers accounting for, what we consider, a very diverse 7.8% of AV.

Saratoga Springs has consistently maintained, what we regard as, strong finances over the past three fiscal years despite a reserve drawdown in fiscal 2009. The fiscal 2012 budget, ending Dec. 31, indicates balanced operations without any use of fund balance; it also includes a 1% property tax rate reduction. Since the city chose not to increase its fiscal 2012 levy, it can carry over 1.5% of the unused levy to fiscal 2013, providing additional flexibility in the next budget year if needed. Audited fiscal 2011 results were not available at the time of publication, but officials indicate the year closed with an operating surplus that increased general fund balance to $10 million: $8 million, or, what we view as, a very strong 22% of budgeted expenditures, of which management considers available (unassigned and assigned) balance. Management attributes part of the surplus to Saratoga Springs receiving an unexpected $1.5 million of video lottery terminal revenue from the state: $1 million of which management placed in a tax stabilization fund the city established midyear. Saratoga Springs ended fiscal 2010 with a $1.1 million net operating surplus and a $4.2 million ending unreserved general fund balance, which we consider a strong 12.5% of expenditures.

Property taxes generated 47% of general fund revenue in fiscal 2010 followed by another 42% from nonproperty taxes. In addition, four of the city's seven union contracts remain unsettled; in our view, this could put some downward pressure on Saratoga Springs' finances over the next few years. Management, however, indicates it has built contingencies into the budget to cover the likely negotiated outcomes.

Standard & Poor's revised its assessment of Saratoga Spring's financial management practices to "good" from "standard" under its Financial Management Assessment (FMA) methodology due to the city's formal adoption of reserve and debt management policies. 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 new reserve policy requires the city maintain an unassigned general fund balance between 10% and 12.5% of the budget. Management can use, with city council approval, 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 fund balance back to the minimum target by either the next budget year or another appropriate period. The 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.

In our opinion, overall debt is a moderate $2,091 per capita, or a low 1.6% of market value. Debt service carrying charges remained, in our view, a low 6.9% of expenditures in fiscal 2010. We consider debt amortization slower than average with officials planning to retire 40% of principal over 10 years.

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 $3.1 million, or 9.3% of general fund expenditures, in 2010. The city continues to fund OPEB contributions through pay-as-you-go financing, which was $2.4 million, or about 24% of the annual OPEB cost, in fiscal 2010. As of Dec. 31, 2010, the OPEB unfunded actuarial accrued liability (UAAL) was $104.7 million. When this UAAL is added to the city's debt, overall net debt increases to, what we view as, a high $5,652 per capita, or a moderate 4.4% of market value.

Outlook

The stable outlook reflects Standard & Poor's opinion of, what Standard & Poor's considers, Saratoga Springs' strong finances and access to a stable and diverse regional economy. If reserves deteriorate materially due to ongoing labor negotiations or weaker-than-projected revenue, the rating could experience downward pressure.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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