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Summary:

Saratoga Springs, New York; General Obligation

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Summary:

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Credit Profile		
US$5.124 mil pub imp (Serial) bnds ser 2014 due 06/15/2034		
Long Term Rating	AA+/Stable	New
Saratoga Springs GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA+' rating and stable outlook to Saratoga Springs, N.Y.'s series 2014 general obligation (GO) bonds.

In addition, Standard & Poor's affirmed its 'AA+' rating on the city's GO bonds outstanding. The outlook is stable.

The rating reflects what we view as Saratoga Springs':

- Very strong economy, with participation in the diverse regional employment base of the Albany-Schenectady-Troy metropolitan statistical area (MSA);
- Very strong budgetary performance, with estimated surpluses in the general fund for fiscal 2013;
- Very strong budgetary flexibility, with available reserves above 10% in the past three fiscal years;
- Strong management conditions, with formal policy and practices;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures; and
- Adequate debt and contingent liability position, mostly reflecting the city's low net direct debt.

The city's faith and credit pledge secures the bonds. We understand that officials intend to use bond proceeds to fund various capital projects.

Very strong economy

Saratoga Springs, with a 2013 population estimate of 26,542, 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; however, it is best known for the Saratoga Race Track and its performing arts center, as well as Skidmore College, which is one of the city's leading local employers. Management indicates Saratoga Springs continues to benefit economically from the Luther Forest Technology Campus, a 1,414-acre technology park designed for nanotechnology manufacturing and research and development. GLOBALFOUNDRIES Inc., the anchor tenant, has completed its chip fabrication plant and plans to invest another $10 billion in the plant. In addition to local employment, 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. We expect professional and business services to contribute to employment growth in the region. County unemployment averaged 5.9% in 2013, below state and national levels. Projected median household effective buying income is what we consider a strong 131% of the national level.

According to management, Saratoga Springs expects to continue to see steady commercial and residential development in the medium term. Assessed value (AV) has increased less than 1% annually, on average, in the past four fiscal years to $3.1 billion in 2014. Full valuation is $3.8 billion or $141,792 per capita. Management expects the modest trend of AV growth to continue in the medium term. Little taxpayer base concentration exists with the 10 leading taxpayers accounting for what we consider a very diverse 7.9% of AV.

Very strong budgetary performance

In our opinion, Saratoga Springs has consistently maintained a very strong budgetary performance in the past three fiscal years. Unaudited fiscal 2013 figures, ended Dec. 31, 2013, indicate a $3 million (7.7% of budget) operating surplus in the general fund and 3% in total governmental funds after adjusting for capital outlay financed by bond proceeds. Management attributes the positive operating performance to steady growth in revenues relative to budget, strong sales tax performance, and video lottery terminal (VLT) aid. The city's fiscal 2014 budget totals $40.3 million, which is a slight increase over the 2013 budget. Management indicates fiscal 2014 is on target for both revenues and expenditures and expects to close in line with recent operating performances. Property taxes are Saratoga Spring's leading revenue source, accounting for 43% of general fund revenue in fiscal 2014, followed by another 31% from nonproperty taxes. As a result, in the medium term, we expect the city to maintain at least a strong budgetary performance.

Very strong budget flexibility

The city's budgetary flexibility is very strong, in our view. Saratoga Springs has continued to improve reserve levels in the past three fiscal years. Unaudited figures for fiscal 2013 indicate the city has about $10.5 million in assigned and unassigned reserves, equivalent to about 26% of expenditures and in accordance with its reserve policy. We understand management does not have plans to spend down reserves, thus we believe the city will continue to maintain its very strong budgetary flexibility in the medium term.

Strong management conditions

Standard & Poor's still considers its assessment of Saratoga Spring's financial management practices "good" under its Financial Management Assessment (FMA). 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 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 2013 and requires the city to now maintain an unassigned general fund balance between 10% and 15% of the budget. With city council approval, management can use amounts in excess of the 15% 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 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.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with 2013 projected total governmental available cash at 16% of total governmental fund expenditures and 160% of 2012 debt service. We believe Saratoga Springs has strong access to external liquidity. It has issued GO bonds and frequently in the past 15 years.

Adequate debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is adequate, with total governmental funds debt service at 7.9% of total governmental funds expenditures and with net direct debt at 101% of total governmental funds revenue. Overall net debt is low at 1.7% of market value. Amortization of debt is also below average with 45% of principal to be retired in 10 years. The city's future debt plans are guided by management's five-year capital improvement plan, and we expect issuance of about $6.5 million in fiscal 2015.

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 $4.7 million or 11.2% of expenditures in 2012. It continues to fund OPEB contributions through pay-as-you-go financing, which was $2.2 million, or about 28% of the annual OPEB cost, in fiscal 2012. As of Dec. 31, 2012, the OPEB unfunded actuarial accrued liability was $78.2 million. Combined pension and OPEB costs for the city in fiscal 2012 totaled about $7 million, equivalent to 16.5% of expenditures.

Strong Institutional Framework

We view the Institutional Framework of New York cities except for New York City as strong. See Institutional Framework score for New York, published Sept. 12, 2013, on RatingsDirect on the Global Credit Portal.

Outlook

The stable outlook reflects what Standard & Poor's considers Saratoga Springs' strong finances and access to the stable and diverse Albany-Schenectady-Troy MSA. While 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. In our opinion, the city's strong management conditions rooted in good financial management policies and practices provide stability to the rating. Over time, we could raise the rating if the city continues to maintain its very strong budgetary performance and flexibility and management demonstrates an ability to mitigate the effects of the fixed costs associated with the city's long-term liabilities in pension and OPEB. While 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

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 7, 2014
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New York Local Governments, Sept. 12, 2013

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