S&P Global Ratings

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Summary:

Albany, New York; General Obligation

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Summary:

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Credit Profile		
US$29.3 mil GO bnds ser 2019 dtd 01/31/2019 due 01/15/2034		
Long Term Rating	A+/Stable	New
Albany GO		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to Albany, N.Y.'s series 2019 general obligation (GO) serial bonds and affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

The city's faith-and-credit-GO pledge secures the bonds, including the statutory authorization to levy ad valorem taxes on all real property in the city, subject to applicable statutory limitations.

We understand officials intend to use series 2019 bond proceeds to purchase street lights and upgrade to light-emitting-diode bulbs, as well as finance all project-related costs.

The rating reflects our opinion of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund and a slight operating deficit at the total governmental-fund level in fiscal 2017;
- Very weak budgetary flexibility, with available fund balance in fiscal 2017 of 3.1% of operating expenditures, as well as limited capacity to raise revenue due to consistent and ongoing political resistance;
- Strong liquidity, with total government available cash at 9.5% of total governmental-fund expenditures and 94.2% of governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 10.1% of expenditures and net direct debt that is 56.8% of total governmental-fund revenue, and significant medium-term debt plans and a large pension and other-postemployment-benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but rapid amortization, with 87% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Albany's economy adequate. The city, with an estimated population of 99,532, is in Albany County in the Albany-Schenectady-Troy MSA, which we consider broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 81.2% of the national level and per capita market value of $48,828. Overall, market value has grown by 0.7% during the past year to $4.9 billion in fiscal 2019. County unemployment was 4.3% in 2017.

Albany, the capital of New York State, serves as the central city of the Albany MSA. The presence of state government pervades local income and the city's property tax base. The state is the city's leading employer with 49,000 employees. Approximately 64% of city property is tax exempt, 58% of which management attributes to state tax-exempt property. The level of tax-exempt property adversely affects market value per capita. We believe employment in state government, higher education, and health care stabilizes the local economy.

Management expects continued development of residential property, including private dormitories, to support taxable property value growth in and around the city's downtown area. The city has experienced slight population and employment growth during the past few years, the latter of which management attributes to improvements outside of state government in the manufacturing, health-care, and education sectors. We believe the establishment of, and investment in, the Albany NanoTech complex helps diversify the city's economy.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

Management uses five years of trend analysis for revenue and expenditure assumptions and makes adjustments based on recent revenue trends realized or contract considerations. The city's board of estimate monitors revenue and expenditures biweekly. Officials prepare financials for the treasurer's and budget director's offices for budgetary purposes, and they present financial updates to the common council quarterly.

The city maintains a five-year formal capital improvement plan and an investment policy, with holdings and performance disclosed in annual reports to the council. While the city currently lacks a formal reserve policy, it maintains a debt-management policy that details how it could issue debt, as well as carrying-charge targets, excluding revenue-supported debt.

The city does not maintain a five-year, long-term financial plan. It, however, has worked with the state's financial restructuring board and public financial management firm to draft a three-year plan to improve finances.

Adequate budgetary performance

Albany's budgetary performance is adequate, in our opinion. The city had deficit operating results in the general fund of 2.2% of expenditures and slight deficit results across all governmental funds of 0.6% of expenditures in fiscal 2017.

Our analysis includes adjustments for recurring transfers out of the general fund and current expenses associated with pensions deferred under the state's contribution-stabilization program.

Fiscal 2016 closed with an operating surplus of $6.2 million, supported by significant adjustments to staffing, hiring practices, and procurement and the management of worker's compensation and health-care costs.

We note that while management recognizes the limitations of its tax burden, applied to less than half of all property in the city, officials have looked to set charges for services, such as increased garbage-collection fees, commensurate with the cost of providing the services. We note Albany also received $12.5 million from the state, which it had budgeted for but was not assured until state budget adoption. In past years, the state provides the funds, also known as spin-up funds, as an accelerated payment for the 19-A program, approved by the New York State Legislature, under which the state provides payments in lieu of taxes (PILOTs) to the city for the use of the Empire State Plaza government complex. In 2017 and 2018, the funds were provided as new revenue to the city and did not decrease future payments under 19-A.

Audited fiscal 2017 results show a slight deficit of $3.7 million due to higher-than-budgeted worker's compensation expenditures and the loss of voluntary PILOTs. Revenue came in on target. Once again, the city included $12.5 million in state support, classified as capital city funds. However, in contrast to fiscal 2016, the adopted state budget included the $12.5 million, not as an accelerated payment for the 19-A program but as unrestricted state support. We believe this change in state funding marks a shift in the legislature's consideration of city finances and the state's role in partnering with the city to support balanced operations; however, we note the funding is not tied to a specific purpose.

The fiscal 2018 adopted budget called for a slight reduction in operating expenditures from fiscal 2017 based on continued oversight of staffing changes and further consolidation of intracity and intercounty services, where possible. In addition, the fiscal 2019 budget no longer includes the voluntary PILOTs the city did not receive the previous two fiscal years. The city budgeted for $12.5 million in state support, and management notes it received $12 million. Management expects breakeven results due to sales tax revenue coming in $1.5 million more than budgeted and voluntary PILOTs coming in $1.7 million less than budgeted.

The fiscal 2019 adopted budget totals $176.9 million, a slight increase of 0.3% from fiscal 2018, not including the use of fund balance. Therefore, we believe budgetary performance will likely remain adequate while the city remains reliant on continued state support.

Very weak budgetary flexibility

Albany's budgetary flexibility is very weak, in our view, with available fund balance in fiscal 2017 of 3.1% of operating expenditures, or $5.3 million. Negatively affecting budgetary flexibility, in our view, is a limited capacity to raise revenue due to consistent and ongoing political resistance.

Management expects breakeven fiscal 2018 results with no fund-balance reduction. After years of operating deficits, compounded by uncertainty related to state support from the 19-A program, requiring the use of fund-balance drawdowns, available fund balance was about a negative 1% of operating expenditures in fiscal 2015. We also believe the city has a limited ability to raise revenue from property taxes, evidenced by the share of state-owned land within its jurisdiction and the recent reliance on state support to balance the budget. Due to these recent developments and our expectation for breakeven results in fiscal 2018, we believe Albany's budgetary flexibility will likely remain very weak during the next few fiscal years.

Strong liquidity

In our opinion, Albany's liquidity is strong, with total government available cash at 9.5% of total governmental-fund expenditures and 94.2% of governmental debt service in fiscal 2017. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the regular issuance of GO debt and bond anticipation notes evidences the city's strong market access. Although the state allows for, what we view as, permissive investments, the city holds its funds in deposit accounts and money-market funds, which we do not consider aggressive. Albany issued $6 million in revenue anticipation notes in fiscal 2015, its first such issuance since 2009; it, however, has not issued revenue anticipation notes since 2015.

Recent contract settlements with the city's unions did not include retroactive pay. Should current negotiations with its police union follow a similar pattern, we do not believe there would be a significant effect on liquidity. However, if the police union were to receive significant retroactive pay, we could revise our opinion of the liquidity profile. Currently, we expect liquidity will likely remain relatively stable or decrease slightly, which could modify our view of liquidity.

Very weak debt-and-contingent-liability profile

In our view, Albany's debt-and-contingent-liability profile is very weak. Total governmental-fund debt service is 10.1% of total governmental-fund expenditures, and net direct debt is 56.8% of total governmental-fund revenue. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans. Approximately 87% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Albany's total direct debt is approximately $105 million. The city expects to issue up to $42 million of additional debt, commensurate with its rolling five-year capital improvement plan, with nearly $33 million in principal amortizing during the same period.

In our opinion, Albany's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. Albany's combined required pension and actual OPEB contribution totaled 18% of total governmental-fund expenditures in fiscal 2017: 9.1% represented required contributions to pension obligations and 8.9% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2017. The largest pension plan's funded ratio is 93.5%.

Albany participates in the New York State Employees' Retirement System (NYSERS) and the New York State Police & Fire System (PFRS), which are part of the New York State and local retirement system. The fiduciary net positions, as a percent of total pension liability, were 98.2% for NYSERS and 96.9% for PFRS at March 31, 2018.

At Dec. 31, 2017, the city owed about $13 million to NYSERS due to deferred contributions. Albany deferred $1.5 million in pension costs in fiscal 2018, and it could defer the same amount in fiscal 2019. Despite the state pension plans' strong funded levels, we note the city will eventually have to catch up with its deferred pension contributions and annual contributions through, at least, fiscal 2029.

Albany also provides OPEB to eligible employees, funded on a pay-as-you-go basis. At Dec. 31, 2017, the city's unfunded OPEB liability was $399.4 million. Albany contributed 57.5% of its annual OPEB cost in fiscal 2017. We consider the city's large pension and OPEB costs and lack of a plan to fund OPEB obligations, which we recognize as limited under state statute, negative credit factors.

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 the city's adequate economy, supported by the stabilizing presence of state government and other educational and health-care institutions. The outlook also reflects our opinion of the city's recent return to positive available fund balance. We believe management will likely maintain reserves during the next few fiscal years due to its recent efforts to reduce citywide departmental expenses. Therefore, we do not expect to change the rating during the two-year outlook period.

Downside scenario

If the city's efforts to generate additional revenue through service charges, continued state support, and plans to consolidate city services for expenditure savings do not successfully decrease budgetary gaps, we could lower the rating. In addition, if the city were to settle its contracts outstanding with significant retroactive payments or fixed costs from pension and OPEB expenditures were to pressure the budget, causing liquidity to decline, we could lower the rating.

Upside scenario

If management were to maintain its efforts to improve operating performance, allowing it to rebuild fund balance while improving liquidity, without increasing its reliance on state aid, we could raise the rating.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 16, 2019)		
Albany GO (serial) bnds		
Long Term Rating	A+/Stable	Affirmed
Albany GO (serial) bnds		
Long Term Rating	A+/Stable	Affirmed
Albany GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Albany GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Albany GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Albany GO		

Ratings Detail (As Of January 16, 2019) (cont.)		
Long Term Rating	A+/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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