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Summary:

Albany, New York; General Obligation

Primary Credit Analyst:
Timothy J Daley, Boston (1) 617-530-8121; timothy.daley@standardandpoors.com

Secondary Contact:
Lindsay Wilhelm, New York (1) 212-438-2301; lindsay.wilhelm@standardandpoors.com

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Credit Profile		
US$4.68 mil go rfdg (serial) bnds (Federally Taxable) ser 2015B due 06/01/2020		
Long Term Rating	AA-/Stable	New
US$4.59 mil go rfdg (serial) bnds ser 2015A due 06/01/2018		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating and stable outlook to Albany, N.Y.'s series 2015 general obligation (GO) refunding bonds. The outlook is stable.

At the same time, Standard & Poor's has affirmed its 'AA-' rating, with a stable outlook on the city's GO debt outstanding.

The ratings reflect our assessment 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;
- Weak budgetary performance, with 2014 operating results that we expect could deteriorate relative to fiscal 2013 due to a projected $8.5 million general fund operating deficit;
- Adequate budgetary flexibility, with an available fund balance that we expect will decrease by about $8.5 million in the near term from its fiscal 2013 level of $14.6 million, or 8.9% of operating expenditures;
- Strong liquidity, with total government available cash that we expect will decline in the near term relative to its fiscal 2013 levels of 13.6% of total governmental fund expenditures and 129.3% of governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges of 10.5% and net direct debt that is 72.4% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) liability, but rapid amortization with 75.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The city's faith and credit GO pledge secures the bonds, including the statutory authorization to levy ad valorem taxes on all real property within the city, subject to applicable statutory limitations. Bond proceeds will be used to refund the city's series 2006 GO bonds outstanding for net present value savings of about $697,000, which will be taken over the life of the bonds with no extension of maturities.

Adequate economy

We consider Albany's economy adequate. Albany, with an estimated population of 97,152, is located in Albany County in the Albany-Schenectady-Troy, N.Y. MSA, which we consider to be broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. Given that it is the capitol of New York State, approximately 58% of city property is tax exempt, with the state as the major owner of the tax-exempt properties. Consequently, we believe this level of tax-exempt property adversely affects market value per capita. The city has a projected per capita effective buying income of 83.2% of the U.S. level and per capita market value of $44,708. Overall, the city's market value grew by 2.0% over the past year to $4.3 billion in 2015. The county unemployment rate was 6.2% in 2013, and stands at 4.4% as of December 2014, below state and national rates.

Albany serves as the anchor of the state's capital region. Employment in state and local government, higher education, and health care stabilizes the economy. The state is the city's major employer with 49,314 employees, followed by Albany Medical Center (9,000 employees), St. Peter's Hospital (5,800), and University at Albany (5,000). We understand that Albany Medical Center is undergoing a $22 million construction project related to a neonatal intensive care unit surgical facility. In the past 10 years, the city has developed into a center for technological research and manufacturing, driven by the establishment of the College of Nanoscience and Engineering within the State University of New York (SUNY) Albany campus. The establishment of, and investment in, the Albany NanoTech complex appears to have added significant strength and diversity to the economy. Management projects that over the next 10 years the city will continue to add 100-200 additional residential units to support the additional job creation expected from its major employers.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We understand a new administration took office in January of 2014, with the city's prior treasurer elected as mayor. In 2014, the city worked with the state's Financial Restructuring Board to close a previous $18 million structural budget gap. Consequently, the city received additional aid from the state, which allowed the city to close the gap in fiscal 2015, and to implement an enterprise resource planning system. City officials believe the implementation of this system will allow for stronger budgeting practices and tighter internal controls for budget monitoring.

Management utilizes three to four years of trend analysis for its revenue assumptions, and contracts primarily drive expenditures. The city monitors revenues and expenditures throughout the fiscal year on a monthly basis, where officials prepare financials for the treasurer's and budget director's offices and presents financial updates to common council on a quarterly basis. Furthermore, any significant issue that may arise throughout the year is brought to the attention of the common council. The city maintains a five-year formal capital improvement plan and its own investment policy where holdings and performance are monitored quarterly. While the city currently lacks a formal reserve policy, it does currently maintain a debt management policy, which indicates for what purposes debt may be issued, as well as limiting debt service carrying charges to 10% of governmental fund expenditures.

Weak budgetary performance

Albany's budgetary performance is weak in our opinion, with slight deficit operating results in the general fund of $1.5 million (0.9% of expenditures), and operating deficit results across all governmental funds of $2.8 million (1.6%) in fiscal 2013. Our assessment accounts for the fact that we expect budgetary results could deteriorate from 2013 results in the near term.

Management projects fiscal 2014 closed with a general fund deficit of $8.5 million, which is better than the $9.8 million initially budgeted but, in our opinion, results in a deterioration in its overall performance. We understand the key driver for the deficit is due to the reduction in a payment in lieu of taxes (PILOT) to the city from the Empire State Plaza Complex, the underestimation of healthcare costs, and unsupported cuts in operating expenses. While the decreased PILOT was a key driver in the city's use of appropriated reserves in 2014, a current agreement with the complex stipulates an annual $15 million payment through 2031, which provides the city with some time to make the necessary budget adjustments to account for the reduction in the future.

Albany's fiscal 2015 budget totals $176.3 million and includes a fund balance appropriation of $2 million, which is the lowest appropriation dating back to fiscal 2009. For fiscal 2015, the city received an additional $10 million from the state for capital projects, as well as from the sale of property; while nonrecurring in nature, these funds allowed the city to appropriate less fund balance than budgeted in fiscal 2014. In addition, city officials identified $5.4 million in recurring savings, and $3.8 million in recurring revenue. We understand the city is currently on target for revenues and expenditures to date. However, it is too early to determine whether or not the fund balance appropriation will be expended. The city's leading revenue sources include property taxes (32%), county sales tax distributions (18%), PILOTs from the state (16%), and state aid (13%). City tax collection procedures are such that the city bears none of the burden of uncollected or delinquent real estate taxes as it retains a portion of the taxes collected equal to its final tax levy, and remits the remaining portion to the county.

Overall, we believe management is addressing the underlying issues that led to the previous budgetary gap. In addition, with respect to expenditures, the city's collective bargaining contracts have been out of date since 2009, 2011, or 2013, depending on the bargaining unit. We understand that the contracts are in various stages of binding arbitration, mediation, and negotiation. In our opinion, there is some risk that the settlements could hinder the city's budgetary flexibility, or in certain cases, result in retroactive salary payments. At the same time, we understand management is looking to continue to enhance its revenue profile, as well as make expenditure adjustments to realign recurring revenues with recurring expenditures. We note that a continued trend of weak performance could pressure the rating at its current level.

Adequate budgetary flexibility

Albany's budgetary flexibility is adequate, in our view, with an available fund balance that we expect will decrease in the near term from its fiscal 2013 level of 8.9%, or $14.6 million. Management projects available reserves will decline by about $8.5 million as a result of fiscal 2014 general fund operations. Consequently, available reserves will decline to $6.1 million, below 8% of expenditures. The city's fiscal 2015 budget includes an additional $2 million fund balance appropriation, which if spent, could further weaken the city's budgetary flexibility to a level we consider weak.

Strong liquidity

In our opinion, Albany's liquidity is strong, with total government available cash that we expect will decline due to fiscal 2014 results relative to its fiscal 2013 levels of 13.6% of total governmental fund expenditures and 129.3% governmental debt service in 2013. In our view, the city has strong access to external liquidity, if necessary. The city has issued cash flow notes in the past (2009) to meet its liquidity needs that result from the timing mismatches between state aid disbursements and ongoing expenditures; however, it did not do so in fiscal 2014 and does not expect to issue liquidity notes in 2015.

Weak debt and contingent liability profile

In our view, Albany's debt and contingent liability profile is weak. Total governmental fund debt service is 10.5% of total governmental fund expenditures, and net direct debt is 72.4% of total governmental fund revenue. The city currently has about $118 million in total direct debt, including $29 million in bond anticipation notes (BANs), for which it has the takeout authorization to permanently finance. Approximately 75.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. We understand the city expects to issue $21 million in new money general obligation (GO) BANs in the summer of 2015. We do not believe this issue will have a material impact on the city's debt burden due to its amortization schedule of existing long-term debt.

In our opinion, a credit weakness is Albany's large pension and OPEB liability. All full-time employees of the City are members of the New York State Employees' Retirement System or the New York State Policemen's and Firemen's System. Albany's combined pension and OPEB contributions totaled $28.4 million, or 15.9% of total governmental fund expenditures in 2014. Of that amount, $14.5 million (80% of the annual required contribution [ARC]) represented contributions to pension obligations (8.1% of governmental fund expenditures) and $9.9 million, or 5.6% represented OPEB payments. The city has deferred pension contributions in accordance with state statute from fiscal years 2011-2015, and officials expect to contribute 100% of the ARC in the future. The city funds its OPEB liability on a pay-as-you-go basis. There is currently no ability under state statues to accumulate assets to fund the future liability. As of Dec. 31, 2014, the unfunded liability is $261 million.

Strong institutional framework

The institutional framework score for New York cities (other than the city of New York) is strong. See the institutional framework score for New York.

Outlook

The stable outlook reflects Standard & Poor's opinion of Albany's strong management conditions and expectation that officials will continue to make the necessary budget adjustments to align recurring revenues with recurring expenditures. The outlook further reflects Standard & Poor's opinion of the city's growing and diversifying economy. We believe upward rating potential is limited at this time given the budgetary pressure posed by the city's high fixed costs, and declining reserve levels. If management draws on available reserves more than what is budgeted in 2015 resulting in a decline in budgetary flexibility and liquidity or the city's weak budgetary performance persists through fiscal 2016, we could lower the rating.

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 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

- Institutional Framework Overview: New York Local Governments

Ratings Detail (As Of April 20, 2015)		
Albany GO (serial) bnds		
Long Term Rating	AA-/Stable	Affirmed
Albany GO (serial) bnds		
Long Term Rating	AA-/Stable	Affirmed
Albany GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

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