S&P Global Ratings

RatingsDirect®

Summary:

Albany, New York; General Obligation

Primary Credit Analyst:
Felix Winnekens, New York + 1 (212) 438 0313; felix.winnekens@spglobal.com

Secondary Contact:
Lauren Freire, New York + 1 (212) 438 7854; lauren.freire@spglobal.com

Table Of Contents

Summary:

Albany, New York; General Obligation

Credit Profile		
US$56.129 mil GO (serial) bnds, 2022 ser 2022 dtd 03/24/2022 due 03/15/2030		
Long Term Rating	A+/Stable	New

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to Albany, N.Y.'s $56.1 million series 2022 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 2022 bond proceeds to finance various capital projects in the city. The city will also concurrently issue $16.8 million in bond anticipation notes, which we have not been asked to rate.

Credit overview

Albany is New York's state capital, which is an important anchor for the city's economy. However, the economy continues to revitalize and diversify with significant growth in sectors such as education, health care, and technology. Most notably, in the next few years the city's port will be home to the first offshore wind tower assembly site in the U.S. Albany experienced some financial pressure during the COVID-19 pandemic in fiscal years 2020 and 2021. However, continued conservative budgeting and increases in state and federal funding provide ongoing budgetary support. Debt and contingent liabilities remain a weak point, as the city continues to defer pension costs and is facing a large unfunded other postemployment benefit (OPEB) liability.

The rating reflects our opinion of the city's:

- Resilient economy centered on state government and an expanding renewable energy sector.
- Financial position that was stressed by the pandemic but is benefiting from expected increases in state aid.
- Good financial management policies and practices and strong institutional framework.
- Elevated debt, pension, and OPEB burden that is further strained by ongoing pension cost deferral.

Environmental, social, and governance

We analyzed the city's social risks and determined that they are in line with our view of the sector standard. We view the state's governance regarding the lack of mechanism to prefund OPEB as a weakness for New York local governments. Given Albany's location on the Hudson River, the city is exposed to occasional flooding events. To that end, the city has continued to invest in stormwater runoff infrastructure, in particular to limit runoff into the Hudson River. We also note that, as the state and the county seat, the city has an elevated level of tax-exempt land, which may pressure future budgets, as it is unable to fully tax its base to support operations.

Stable Outlook

Downside scenario

We could consider a negative rating action if operational imbalances, or other unexpected budgetary pressures led to further reserve draws, reducing reserves to what we consider weak. We could also consider a negative rating action if high pension and OPEB costs pressure operations.

Upside scenario

Conversely, if management were to maintain its efforts to improve operating performance, allowing Albany to rebuild fund balance while improving liquidity, without increasing its reliance on state aid, we could consider a positive rating action.

Credit Opinion

Expected investment in offshore wind manufacturing could boost Albany's economy

Albany, the capital of New York State, serves as the central city of the Albany metropolitan statistical area (MSA). The presence of state government is a foundation of local income and the city's property tax base. The state is the city's leading employer with over 49,000 workers. Approximately 63% of city property is tax exempt, 60% of which management attributes to state tax-exempt property. This high level adversely affects market value per capita. At the same time, we believe employment in state government, higher education, and health care stabilizes the local economy, as evidenced by the MSA's unemployment rate falling to 2.5% in December 2021, well below state and national averages.

One of the most noteworthy projects is occurring at Albany's port. It is currently undergoing a major expansion and is set to become the U.S.' first offshore wind tower assembly site. The project represents an investment of over $350 million and could create 550 full-time jobs by 2024. Officials also expect ancillary investments in SUNY Poly's Albany NanoTech Complex from ongoing construction of semiconductor chip fabrication plants outside the city. Also underway are the state's downtown revitalization projects, a recent $20 million renovation of MVP Arena, and several residential and commercial real estate developments.

The ongoing economic expansion and diversification have also helped reverse Albany's shrinking population trend in 2020. We believe that given the resilience of the largest employer, the state, and the ongoing growth in non-government jobs, the city's wealth and income metrics will keep increasing in the coming years.

Strong financial management policies with well-embedded practices

Albany, which suffered a ransomware attack in March 2019 with minimal financial damage, recently announced that it, alongside New York City and a number of other larger cities in the state, will join the state's Joint Security Operations Center to oversee cyber security. We view this step, together with other measures implemented by the city, as positive actions that will help Albany protect itself from emerging risks, such as cyber security threats.

Management uses at least three to four 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 has a five-year formal capital improvement plan (CIP) and an investment policy, with holdings and performance disclosed in annual reports to the council. As part of the CIP, Albany is also taking resiliency measures: for instance, measures to mitigate flooding risks and sewer infrastructure investments to reduce sewer overflows into the Hudson River. Although the city lacks a formal reserve policy, it has a debt management policy that details how it could issue debt, as well as carrying charge targets, excluding revenue-supported debt.

Albany does not have a five-year, long-term financial plan but internally uses longer-term planning documents to guide decision-making and financial planning.

Budgetary pressures related to the pandemic but economic recovery and additional state and federal funds provide cushion

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

In fiscal 2020, Albany's financial position felt the economic and financial impact of the pandemic. Revenues came in more than $12 million below the revised budget, while expenditures were only $5.4 million lower. Sales tax revenue fell short of expectations as a result of pandemic-related social distancing requirements. In addition, the state's decision to withhold 20% of certain aid payments put pressure on fiscal 2020 results. On the expense side, higher overtime costs, in part in response to the pandemic, partially offset spending controls and austerity measures.

Economically sensitive revenues, especially sales tax, started to recover in fiscal 2021 and officials expect receipts will exceed budget. Moreover, the state made up for the aid it withheld in fiscal 2020, which provided an additional revenue windfall. However, results likely remained imbalanced, as landfill revenue fell short of expectations and overtime costs continued to exceed budgeted numbers. The overtime costs were also not completely offset by higher vacancies. In addition, Albany settled a collective bargaining agreement with its police union that had been outstanding since 2016. The contract includes pay raises from 2016-2021 and, as a result, retroactive pay of almost $10 million. That said, the city will receive $80.5 million (45% of fiscal 2020 general fund expenditures) in American Rescue Plan Act (ARPA) money. It will likely use some of it to replace lost revenues, which should help avoid posting deficit results in fiscal 2021.

In fiscal 2022 and going forward, ARPA funds will support a broad range of projects. They include investments in affordable housing and the health response to the pandemic, support for small businesses and the arts and entertainment industry, and investments in transportation infrastructure. ARPA money will also continue to offset lost revenues. Of note, in the governor's executive fiscal 2022 budget, the state included for the first time the full amount in capital city funding that Albany requested. We also understand the city is actively working with the state to address potential inequities in the amount of Aid and Incentives for Municipalities funding that the city receives. Albany has reduced its reliance on landfill revenue by cutting budgeted landfill revenue in half from fiscal 2015; we view this positively. This step will allow the landfill's life to be extended and keep costs down. Overall, we believe these additional state and federal funds and continued conservative budgeting will support budgetary balances in the medium term.

With results expected to be broadly balanced with the use of ARPA money in fiscal 2021, we believe our view of the city's budgetary flexibility will remain unchanged. We consider the city to have a limited ability to raise revenue from property taxes, evidenced by the share of state-owned land within its jurisdiction and reliance on state support to balance the budget. Therefore, we believe Albany's budgetary flexibility will likely remain weak over our forecast horizon.

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, Albany holds its investments in deposit accounts, money market funds, and Treasury bills, which we do not consider aggressive.

Elevated fixed cost burden exacerbated by ongoing pension deferral and a large unfunded OPEB liability

Albany's total direct debt is approximately $130 million. The city expects to issue up to $94.2 million of additional debt, commensurate with its rolling five-year CIP, with approximately $54 million in principal amortizing during the same period.

Pension and OPEB liabilities:

- We view pension and OPEB liabilities as a source of credit pressure for Albany, given that costs represent a large portion of the budget, combined with our expectation that they are likely to rise.
- Since 2011, Albany has chosen to defer pension expenses under the New York State Contribution Stabilization Program, a state-supported pension-smoothing program, which allows local governments to defer a portion of their expenses. The deferral amount outstanding as of 2020 is $10.2 million and Albany must pay this amount in full to the plan by 2029.
- Although the city has some legal flexibility to alter OPEB, it may not be politically feasible. Furthermore, it is unable to prefund these costs, increasing the risk they could create budgetary pressure.
- Offsetting this risk somewhat is the minimal pressure expected from the city's pension liabilities, given strong plan funding status and limited escalating cost trajectory risk.

Albany participates in the following plans as of June 30, 2020:

- Police and Fire Retirement System: 84.9% funded, with a proportional share of the net pension liability equal to $73.5 million.
- Employee Retirement System: 86.4% funded, with a proportional share of the net pension liability equal to $29.1 million.
- A defined-benefit health care plan that provides retiree health care until death: 0% funded with an OPEB liability of about $502.7 million as of Dec. 31, 2020.

Albany's combined required pension and actual OPEB contributions were 17.0% of total governmental fund expenditures in 2020. Of that amount, 8% represented required contributions to pension obligations, and 9.1%

represented OPEB payments. The funded ratio of the largest pension plan is 84.3%. However, the plan's aggregate cost method essentially creates an open amortization policy using a level-percentage pay basis assuming a 3.8% payroll growth rate, which we generally view negatively because the plan will never reach full funding and costs will increase each year. Furthermore, the plan's discount rate of 6.8% could lead to some contribution volatility. However, its high funded status largely mitigates the risks of Albany's costs increasing significantly. The size of deferrals has also declined from a peak of $6.0 million in 2013, to about $653,000 in fiscal 2020.

Albany provides OPEB to its employees, which it funds on a pay-as-you-go basis. Its total OPEB liability was $502.7 million as of Dec. 31, 2020. The state does not permit OPEB liability prefunding. Given long-term medical cost trends, these obligations could become a source of budgetary pressure beyond our outlook horizon.

Strong institutional framework

The institutional framework score for New York cities, other than New York City, is strong.

Albany, New York -- Key Credit Metrics

	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong economy				
Projected per capita EBI % of U.S.	83			
Market value per capita ($)	55,807			
Population		97,289	98,629	98,841
County unemployment rate(%)		7.2		
Market value ($000)	5,429,404	4,848,617		
Ten largest taxpayers % of taxable value	8.2			
Adequate budgetary performance				
Operating fund result % of expenditures		(5.4)	2.9	1.7
Total governmental fund result % of expenditures		(4.4)	3.6	24.1
Weak budgetary flexibility				
Available reserves % of operating expenditures		5.7	7.9	4.4
Total available reserves ($000)		10,242	13,612	7,617
Strong liquidity				
Total government cash % of governmental fund expenditures		11	6	4
Total government cash % of governmental fund debt service		97	68	41
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.2	9.1	10.3
Net direct debt % of governmental fund revenue	72			
Overall net debt % of market value	4.1			
Direct debt 10-year amortization (%)	77			
Required pension contribution % of governmental fund expenditures		7.8		
OPEB actual contribution % of governmental fund expenditures		8.9		

Albany, New York -- Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2020	2019	2018
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of March 3, 2022)		
Albany GO		
Long Term Rating	A+/Stable	Affirmed
Albany GO (AGM)		
Unenhanced Rating	A+(SPUR)/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

Many issues are enhanced by bond insurance.