

RatingsDirect®

Summary:

Albany, New York; General Obligation

Primary Credit Analyst:

Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

Secondary Contact:

Rahul Jain, New York + 1 (212) 438 1202; rahul.jain@spglobal.com

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Credit Profile

US\$32.685 mil GO (serial) bnds ser 2018 dtd 06/28/2018 due 06/15/2028

Long Term Rating A+/Stable New

Albany GO

Long Term Rating A+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'A+' rating to Albany, N.Y.'s series 2018 general obligation (GO) serial bonds and affirmed its 'A+' rating on the city's existing GO debt. The outlook is stable.

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.

We understand officials intend to use series 2018 bond proceeds and available funds to finance the city's bond anticipation notes (BANs) permanently. We also understand the city is issuing BANs to redeem the remaining BANs and provide additional funds for various capital improvements, vehicles, and equipment.

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 operating results we expect could deteriorate in the near term relative to fiscal 2016, which closed with operating surpluses in the general fund and at the total-governmental-fund level;
- Very weak budgetary flexibility, with an available fund balance we expect will decrease in the near term from its fiscal 2016 level of 4.1% 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 7.4% of total governmental fund expenditures and 83.4% of governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 8.9% of expenditures and net direct debt that is 52.1% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it, but rapid amortization, with 81.9% 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. It 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 \$48,468. Overall, market value has been stable during the past year at \$4.8 billion in fiscal 2018. The county unemployment rate 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 weakens 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. The city has experienced a 7% increase in market value during the past two fiscal years. It has also experienced slight population and employment growth during the past few years, the latter of which management attributes to improvements outside of state government in manufacturing, health care, and education. 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 (CIP) 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, but it 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 operating surpluses of 3.7% of expenditures in the general fund and 7% of expenditures across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2016 results during the next few fiscal years.

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. The city experienced weak results in fiscal 2015 due to significantly negative revenue variance associated with its new red-light camera program and higher-than-budgeted expenses for public safety and debt service. It also received less-than-expected one-time revenue from the sale of state-provided land.

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 workers' compensation and health care costs. The city has used attrition as a means for managing employee costs and improved consolidation of city services, and it used the KRONOS timekeeping system to track and manage employee-related costs such as overtime.

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 the adoption of the state budget. The state provides the funds (also known as spin-up funds) as an accelerated payment for the 19-A program, approved by the state legislature, under which the state provides payments in lieu of taxes to the city for the use of the Empire State Plaza government complex.

Unaudited fiscal 2017 results show a slight deficit of \$2.26 million, or 1.3% of expenditures, due to higher-than-budgeted workers' compensation expenditures. 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 2018 adopted budget calls for a slight reduction in operating expenditures from fiscal 2017, based on continued oversight of staffing changes and further consolidation of intracity services and intercounty services, where possible. Due to this provision of state funds and the city's expectation for reduced expenditures in the current fiscal year, along with an on-track year-to-date performance, we believe the receipt of these funds will likely allow Albany to improve fund balance further if expenditure variance remains nominal. The city budgeted for \$12.5 million in state support and management noted it received \$12 million. Therefore, we believe budgetary performance will remain adequate while the city continues to rely on ongoing state support.

Very weak budgetary flexibility

Albany's budgetary flexibility is very weak, in our view, with an available fund balance we expect could decrease in the near term from its fiscal 2016 level of 4.1% of operating expenditures, or \$6.9 million. Impairing budgetary flexibility, in our view, is a limited capacity to raise revenue due to consistent and ongoing political resistance.

Unaudited fiscal 2017 results show a slight decline in available reserves to \$6.4 million, or 3.75% of expenditures.

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 a drawdown in fiscal 2017, 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 7.4% of total governmental fund expenditures and 83.4% of governmental debt service in fiscal 2016. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the regular issuance of GO debt and BANs is evidence of 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 (RANs) in fiscal 2015, its first such issuance since 2009, although it has not issued RANs since.

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 experience a small decline, which would make us modify our view of the city's liquidity position.

Weak debt-and-contingent-liability profile

In our view, Albany's debt and contingent liability profile is weak. Total governmental fund debt service is 8.9% of total governmental fund expenditures, and net direct debt is 52.1% of total governmental fund revenue. Approximately 81.9% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city expects to issue up to \$25 million of additional debt, commensurate with its rolling five-year CIP, with nearly \$30 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 it, is a credit weakness. Albany's combined required pension and actual OPEB contribution totaled 16.6% of total governmental fund expenditures in fiscal 2016. Of that amount, 8% represented required contributions to pension obligations and 8.6% represented OPEB payments. The city made its full annual required pension contribution in fiscal 2016. The funded ratio of the largest pension plan 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 position, as a percentage of total pension liability, was 94.7% for NYSERS and 93.5% for PFRS at March 31, 2017.

At Dec. 31, 2016, the city owed about \$12.9 million to the New York State Retirement System due to deferred contributions. Albany deferred \$1.2 million in pension costs in fiscal 2017, and it could defer the same amount in fiscal 2018. Despite the state pension plans' strong funded levels, we note the city will eventually have to catch up with its deferred pension contributions, as well as annual contributions through at least fiscal 2029.

Albany also provides OPEBs to eligible employees, funded on a pay-as-you-go basis. At Dec. 31, 2016, the city's unfunded OPEB liability was \$393.5 million. Albany contributed 59.5% of its annual OPEB cost in fiscal 2016. We consider the city's large pension and OPEB costs and lack of a plan to fund them, 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 Albany'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 return to positive available fund balance levels in recent years. We believe management will likely maintain reserves during the next few fiscal years due to recent efforts to reduce citywide departmental expenses. We do not expect to change our view of 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 consolidation of city services for expense savings do not successfully decrease future budgetary gaps, we could lower the rating. In addition, if the city's outstanding contracts were settled with significant retroactive payments or fixed costs from pension and OPEB expenditures pressure the budget, causing liquidity to decline, we could reduce the rating.

Upside scenario

If the city were to maintain its efforts to improve operating performance, allowing it to rebuild fund balance while improving liquidity, without an increasing 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
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 6, 2018)

Albany GO (serial) bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Albany GO (serial) bnds		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Albany GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Albany GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Ratings Detail (As Of June 6, 2018) (cont.)

Albany GO

Long Term Rating

A+/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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