

RatingsDirect®

Summary:

Albany, New York; General Obligation

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Summary:

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Credit Profile

US\$13.49 mil GO serial bnds ser 2016 dtd 06/30/2016 due 06/15/2025

Long Term Rating

A+/Negative

New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Albany, N.Y.'s series 2016 general obligation (GO) serial bonds. At the same time, S&P Global Ratings affirmed its 'A+' long-term rating on the city's outstanding GO bonds. The outlook on all ratings remains negative.

The city's faith and credit GO pledge secures the 2016 bonds, including the statutory authorization to levy ad valorem taxes on all real property within the city, subject to applicable statutory limitations.

We understand bond proceeds, in combination with available funds, will be used to permanently finance a portion of the city's outstanding bond anticipation notes (BAN). We also understand the city is also issuing notes to redeem the remainder of the BANs and provide additional funds for various capital improvements, vehicles, and equipment.

The rating reflects 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;
- Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in fiscal 2014;
- Very weak budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2014 level of 1.2% of operating expenditures;
- Adequate liquidity, with total government available cash at 5.4% of total governmental fund expenditures and 48.6% of governmental debt service, but access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 11.1% of expenditures and net direct debt that is 63.5% of total governmental fund revenue; a large pension and other postemployment benefit (OPEB) obligation, though no plan to sufficiently address the obligation; and rapid amortization, with 78.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Albany's economy adequate. The city, with an estimated population of 98,979, is located in Albany County in the Albany-Schenectady-Troy MSA, which we consider to be 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 80.4% of the national level and per capita market value of \$45,216. Overall, the city's market value grew by 3% over the past

year to \$4.5 billion in 2016. The county unemployment rate was 4.4% in 2015.

Albany serves as the anchor of New York 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. Approximately 61% of city property is tax exempt, with the state as the majority owner of tax-exempt properties. The level of tax-exempt property adversely affects market value per capita.

Management expects recent development of private residences and dormitories to support taxable property value growth in and around the city's downtown. The establishment of, and investment in, the Albany NanoTech complex has added strength and diversity to 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 financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management utilizes five years of trend analysis for its revenue and expenditure assumptions and makes adjustments based on recent trends in revenues realized or contract considerations. The city's board of estimate monitors revenues and expenditures on a biweekly basis. City officials also prepare financials for the treasurer's and budget director's offices for budgetary purposes, and financial updates are presented 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 reported in an annual report to the council. 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 limits debt service carrying charges to 10% of governmental fund expenditures, excluding debt fully supported by revenue. The city does not maintain a five-year long term financial plan.

Weak budgetary performance

Albany's budgetary performance is weak in our opinion. The city had operating deficits of negative 8% of expenditures in the general fund and of negative 6.2% across all governmental funds in fiscal 2014.

In calculating the budgetary performance measure, we factor into general fund and total governmental fund expenditures roughly \$3.6 million of deferred pension payments in fiscal 2014.

Albany's fiscal performance weakened significantly in fiscal 2014, resulting in the use of \$8.5 million in general fund reserves. The main driver of the use of fund balance was a reduction of \$7.85 million in the state's 19-A pilot payment, which the state pays to the city for the use of the Empire State Plaza government complex. Weaker results were also attributable to health care costs, which came in \$2.7 million higher than expected.

Management estimates the city used the remainder of general fund reserves--\$2 million--to balance the 2015 budget. Additionally, the city received a one-time revenue infusion of \$5 million in fiscal 2015 from New York State's Financial Restructuring Board to balance its budget, which provided \$3.9 million in budget stabilization assistance and \$1.1 million for the adoption of new accounting information technology systems. Albany also elected to amortize \$879,798 of its pension contribution in fiscal 2015.

The fiscal 2016 adopted budget also relied on one-time revenue support of \$12.5 million from the state to balance operations. The legislature approved this amount in the state budget and half of the amount was disbursed in May 2016. These funds will support the city's effort to maintain balanced operations in the budgeted year, but also highlights the city's dependency on nonsystematic, one-time requests of state support, with no plan between the state and city to reconcile the reduction of state aid related to 19-A support. The city's ongoing negotiations with its unions also remains an area of uncertainty for its budget; the largest union's contract expired Dec. 31, 2013.

Very weak budgetary flexibility

Albany's budgetary flexibility is very weak, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2014 level of 1.2% of operating expenditures, or \$2.1 million.

Recent weak performance, compounded by the loss of state support related to 19-A in fiscal 2014, resulted in the use of reserves to balance operations, weakening the city's financial flexibility. The city's available general fund balance at fiscal 2013 year-end equaled 8.5% of fiscal 2013 expenditures; the available general fund balance was drawn down to 1.2% of expenditures at fiscal 2014 year-end. Management estimates the available general fund balance (about \$2 million) was used to balance operations in fiscal 2015, leaving the city with minimal funds to absorb unexpected fiscal stress. Management does not anticipate having or using available fund balance for operations in fiscal 2016.

Adequate liquidity

In our opinion, Albany's liquidity is adequate, with total government available cash at 5.4% of total governmental fund expenditures and 48.6% of governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

In our opinion, the city's strong market access is evidenced by its regular debt issuances. Though 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. We expect the city's liquidity to remain adequate.

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 11.1% of total governmental fund expenditures, and net direct debt is 63.5% of total governmental fund revenue.

Approximately 78.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Albany does not have privately placed debt. The city expects to issue additional debt commensurate with its rolling five-year capital plan, and is a regular issuer of GO debt.

In our opinion, a credit weakness is Albany's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Albany's combined required pension and actual OPEB contributions totaled 15.8% of total governmental fund expenditures in 2015. Of that amount, 10.3% represented required contributions to pension obligations, and 5.5% represented OPEB payments. The city made 81% of its annual required pension contribution in 2015. The funded ratio of the largest pension plan is 92.2%.

The city participates in the Employees' Retirement System (ERS) and Police and Fire System (PFRS), which are part of the New York State and Local Retirement System. As of March 31, 2015, the fiduciary net position to total pension

liabilities were 97.9% and 99%, for the ERS and PFRS plans, respectively. Albany also provides OPEBs to eligible employees, which are funded on a pay-as-you-go basis. As of Dec. 31, 2014, the city's unfunded OPEB liability was \$261.2 million. The city contributed 74.4% of its annual OPEB cost in 2014.

The city made its pension annual required contribution in 2014 and has been deferring annual pension payments, which is allowed under state statute, since 2011. The total amount of deferrals reported for the city's pension obligations over the past five years is approximately \$16.1 million.

Strong institutional framework

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

Outlook

The negative outlooks reflects our opinion that recent reliance on revenue from nonsystematic state aid, in lieu of previously more substantial pilot payments associated with 19-A, is a source of revenue uncertainty for the city. The city also faces uncertainty related to expired contracts with its bargaining units. We also believe the city's increasing fixed costs, particularly associated with retiree benefits, are a source of significant budgetary pressure. The negative outlook also reflects our opinion of Albany's financial flexibility; reserves for the 2015 fiscal year are expected to reach a point where they can no longer be used to support city operations should it experience additional fiscal stress. Over the next year, there is a one-in-three likelihood we may lower the rating should reserves continue to deteriorate.

If the city were to realize continued imbalanced operations, negatively impacting its liquidity, we could lower the rating multiple notches. However, if the city were to experience positive operating results, supporting a return to fund balance growth, we would revise the outlook to stable, holding all other credit factors equal.

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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Ratings Detail (As Of June 15, 2016)		
Albany GO (serial) bnds		
Long Term Rating	A+/Negative	Downgraded
Albany GO (serial) bnds		
Long Term Rating	A+/Negative	Downgraded

Ratings Detail (As Of June 15, 2016) (cont.)

Albany GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Affirmed
Albany GO (BAM) (SECMKT)		
<i>Unenhanced Rating</i>	A+(SPUR)/Negative	Rating Assigned
Albany GO		
<i>Long Term Rating</i>	A+/Negative	Downgraded
Albany GO		
<i>Long Term Rating</i>	A+/Negative	Downgraded
Albany GO		
<i>Long Term Rating</i>	A+/Negative	Downgraded

Many issues are enhanced by bond insurance.

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