S&P Global
Ratings

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Summary:

Schenectady, New York; General Obligation

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Credit Profile		
US$25.59 mil pub imp rfdg serial bnds ser 2022 due 05/15/2038		
Long Term Rating	A/Positive	New
Schenectady pub imp rfdg (serial) bnds ser 2017 due 05/15/2018-2038		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Schenectady GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
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Rating Action

S&P Global Ratings revised the outlook to positive from stable and affirmed its 'A' rating on Schenectady, N.Y.'s existing GO debt. At the same time, S&P Global Ratings assigned its 'A' rating with a positive outlook to Schenectady's approximately $25.6 million series 2022 public improvement refunding general obligation (GO) bonds.

The outlook revision to positive indicates that we expect Schenectady's economic and financial metrics will continue improving over our outlook horizon, given a strong economic development pipeline and recovering revenues following COVID-19 pandemic-related shortfalls.

The city's faith and credit pledge secures the bonds.

Officials intend to use series 2022 bond proceeds to refund $28.2 million of the city's series 2014 public improvement bonds outstanding for debt service savings.

Credit overview

We expect that, following a challenging fiscal 2020 in which the COVID-19 pandemic caused a $3.7 million fund balance draw, Schenectady's financial position stabilized in fiscal 2021. A recovery of economically sensitive revenues, especially casino revenues, supported the city's operations in fiscal 2021. In addition, expenditure restraint and an influx of federal relief money allowed Schenectady to post at least balanced operations, according to city officials. At the same time, Schenectady, which is in the broader Albany-Schenectady-Troy metropolitan statistical area, is experiencing strong ongoing economic growth that supports the rating over our outlook horizon. However, elevated fixed-cost carrying charges for pension and other postemployment benefits (OPEB) could become a drag on the city's finances, in particular given that New York State does not permit local governments to prefund their OPEB liability.

The rating also reflects our opinion of Schenectady's:

- Ongoing economic recovery and strong pipeline of economic development projects, though income levels remain somewhat weak.

- Recovery of economically sensitive revenues, which support maintenance of strong reserves.
- Standard management practices and strong institutional framework.
- Elevated fixed-cost pressure due to high pension and OPEB carrying charges.

Environmental, social, and governance

In our view, due to the lack of state statutory authority for local governments in New York State to prefund OPEB contributions through a dedicated trust, we think governance risks are somewhat elevated compared with those of Schenectady's peers where OPEB is an implicit subsidy or where OPEB is more easily modified. Despite the city's location along the Mohawk River, we understand inland flooding risk is minimal, in part because of measures taken by the city to protect critical infrastructure, including its water pump station. We therefore consider Schenectady's environmental risk in-line with the sector standard. Lastly, we assess the city's social risks to be in line with those of peers.

Positive Outlook

Upside scenario

We could upgrade the rating if Schenectady manages to maintain positive financial performance and grow reserves to levels we consider very strong while continuing to see economic growth and diversification of its tax base.

Return to stable scenario

We could revise the outlook back to stable if anticipated improvements in the city's economy and finances are more muted, or if sustained financial imbalances or one-time costs lead to a material weakening of the city's financial position, including its reserves.

Credit Opinion

Strong ongoing economic growth should over time support somewhat weaker wealth and income metrics

Schenectady continues its path of economic renewal and transitioning from historical reliance on industry and manufacturing. Since 2004, the city and Schenectady Metroplex Development Authority have raised more than $1 billion in new private investments to diversify the local economy. One of the leading contributors to the newly increased economic activity is the $500-million Mohawk Harbor project, including Rivers Casino & Resort, additional hotels, rental apartments, condominiums, and office and retail space. Mohawk Harbor has already attracted a number of companies that moved their headquarters to the development, including General Electric's renewable energy spinoff, Distributed Solar Development, LLC. We understand other companies are also planning on moving their headquarters to the area, contributing further to Schenectady's economic growth.

The city also benefits from ongoing economic development in neighboring towns, where the warehousing and industrial space in particular is expanding, given the proximity to Albany. In the city itself, a number of large-scale residential and mixed-use developments are under way or were completed in 2021, including:

- The $10-million renovation of the former Trustco building for apartments and commercial space;
- Phase II of the Yates Village development, valued at about $74 million following completion of the $24 million Phase I;
- A new $14-million apartment complex, known as Reserve at Towpath Trail; and
- The completion of the 140,000-square-foot, $40-million Mill Artisan District in downtown with technology offices, retail, and apartments.

Schenectady is also working to transform blighted property to bring property tax base underperformers back on tax rolls through its homeownership-made-easy initiative; through this program, the city can sell foreclosed property and bring it back onto tax rolls, improving neighborhoods and ensuring continuous property tax growth.

Improved employment conditions also support economic acceleration and tax base growth, evidenced by increased market value per capita and economic growth. Based on the amount of ongoing and projected tax base development, we expect the local economy will likely continue to expand beyond our two-year outlook.

Proactive management response during pandemic combined with standard management practices and a strong focus on cyber security measures

Management uses zero-based budgeting with additional contingencies built into the budget annually and conservatively budgets for revenue using data going back five years. Management provides the city council with monthly reports on budget-to-actual results and quarterly trend reports and modifies the budget, as necessary, throughout the year. While investment policies outline investment types, management does not report holdings and returns regularly.

Although it does not have a formal policy, management targets, and complies with, maintaining unassigned fund balance of, at least, 5% of expenditures. Schenectady does not have formal long-term capital or financial plans or a debt management plan that includes quantitative indicators for monitoring and compliance.

We view positively the comprehensive steps management has taken to protect the city from emerging risks, such as cyber security threats.

Stabilized financial performance expected in fiscal 2021, following reserve draws in fiscal 2020

A combination of one-time expenses and the drop in economically sensitive revenues, most notably casino revenues, caused Schenectady to post deficit results in fiscal 2020. As a result, its reserves decreased to what we consider strong from very strong levels. The state's decision to withhold 20% of certain aid payments also hurt the city's finances, especially with state aid accounting for 16% of revenues (property taxes accounted for about 35% of revenues in fiscal 2020). Overtime and personnel costs cuts were insufficient to offset these revenue shortfalls.

Nevertheless, in fiscal 2021 Schenectady's financial performance improved considerably, with city officials expecting at least balanced results and stable reserves. As of third-quarter 2021, mortgage tax, sales tax, and casino revenues were on track to exceed budgeted figures thanks to robust economic activity in the city. In addition, state aid came in higher than budget, especially since the state made up for aid payments withheld in fiscal 2020. On the expense side, Schenectady generated savings through its self-insurance as staff delayed elective procedures during the pandemic. The city will receive approximately $53 million (63% of fiscal 2020 general fund expenditures) in American Rescue

Plan Act (ARPA) money. It has already received the first tranche of ARPA funds, and used the money to offset lost revenues during the pandemic and appropriated funds for various capital projects. Schenectady is also in the process of soliciting input from residents and non-profits for the best use of ARPA funds, including for affordable housing.

Considering the city's expectations for at least break-even results in fiscal 2021, we expect Schenectady's reserves stabilized at strong levels. However, elevated fixed-cost carrying charges with debt, pension, and OPEB payments accounting for approximately 23% of expenditures, constrain the city's ability to cut spending. However, we view positively that Schenectady has now settled all its labor contracts through at least 2023. Some of the contracts settled in fiscal 2021 included retroactive pay, which likely prevented the city from posting more positive results in the fiscal year. Schenectady's ongoing economic growth combined with the possibility of additional revenue from sports gambling and cannabis sales could improve the city's financial performance and, subsequently, its reserve position.

Schenectady has maintained steady cash and cash equivalents during the past five fiscal years. It holds most of this in commercial deposits and money market funds, which we do not consider aggressive. In our opinion, its frequent debt issuance, including GO bonds and BANs, supports its strong access to external liquidity. Due to the city's recent history and current finances, we think liquidity will likely remain very strong.

We note the city issued tax anticipation notes (TANs) to bolster cash during the latter half of 2020 but did not have to issue TANs in fiscal 2021 nor is planning to issue them in fiscal 2022.

Elevated debt levels and fixed-cost carrying charges

With this issuance, Schenectady will have about $148.8 million in total direct debt. Additional debt plans include new bond anticipation notes (BANs), rolling over existing BANs, and permanently financing existing BANs. We do not view these additional debt plans as material.

Pension and OPEB liabilities:

- Schenectady's combined required pension and actual OPEB contribution was 14.3% of total governmental fund expenditures in fiscal 2020: 6.7% represented required contributions to pension obligations and 7.5% represented OPEB payments.
- The city made its full annual required pension contribution in fiscal 2020. The largest pension plan is 86.4% funded.
- We view pension and OPEB liabilities as a credit pressure for Schenectady because costs represent a large portion of the budget; furthermore, we expect they will likely increase.
- Schenectady funds OPEB on a pay-as-you-go basis, which--due to claims volatility, medical costs, and demographics--is likely to result in escalating costs. While the city has some legal flexibility to alter OPEB, it cannot prefund these costs, which increases the risk of budgetary pressure.
- The pension plans it participates in are well funded, and the city has previously deferred pension expenses through the state-supported pension-smoothing program; however, we recognize it has not used this option since 2017.

Schenectady participates in:

- New York State Employees' Retirement System, which is 86.4% funded, with a proportionate share of the net pension liability equal to $12.3 million;

- New York State Police & Fire Retirement System, which is 84.9% funded, with a proportionate share of the net pension liability equal to $43.3 million; and
- Schenectady's defined-benefit plan, with an unfunded liability of $332 million as of December 2020.

Schenectady funds OPEB on a pay-as-you-go basis because current state statute does not permit funding OPEB trusts. However, we note that through labor negotiations, the city has received concessions for new employees related to postemployment health benefits.

Strong institutional framework

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

Schenectady--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Weak economy				
Projected per capita EBI % of U.S.	68			
Market value per capita ($)	41,117			
Population		65,376	65,400	65,146
County unemployment rate(%)		8.1		
Market value ($000)	2,688,090	2,255,616		
Ten largest taxpayers % of taxable value	11.0			
Adequate budgetary performance				
Operating fund result % of expenditures		(4.4)	0.1	2.2
Total governmental fund result % of expenditures		(4.8)	(5.5)	2.9
Adequate budgetary flexibility				
Available reserves % of operating expenditures		12.6	17.0	18.4
Total available reserves ($000)		10,691	14,379	15,296
Very strong liquidity				
Total government cash % of governmental fund expenditures		18	17	21
Total government cash % of governmental fund debt service		207	211	275
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.5	8.2	7.5
Net direct debt % of governmental fund revenue	123			
Overall net debt % of market value	6.2			
Direct debt 10-year amortization (%)	43			
Required pension contribution % of governmental fund expenditures		6.7		
OPEB actual contribution % of governmental fund expenditures		7.5		
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 January 12, 2022)		
Schenectady GO (AGM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
Schenectady GO (BAM)		
Unenhanced Rating	A(SPUR)/Positive	Affirmed
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Many issues are enhanced by bond insurance.