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Summary:

Albany Parking Authority, New York; Parking

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Summary:

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Credit Profile		
Albany Parking Authority		
Long Term Rating	BBB+/Stable	Affirmed
Albany Pkg Auth pkg sys		
Unenhanced Rating	BBB+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has affirmed its 'BBB+' rating on Albany Parking Authority (APA), N.Y.'s parking system revenue bonds outstanding. The outlook is stable.

The rating reflects our opinion of a relatively diverse, although small, parking system with competitive rates.

More specifically, we believe the rating reflects the following credit weaknesses:

- A relatively limited number of parking facilities securing the bonds;
- Some limitation on rate-setting flexibility, due to a significantly discounted long-term agreement with the Dormitory Authority of the State of New York (DASNY) for about 13% of the authority's inventory of off-street parking spaces; and
- Some cyclicality in the local economy, which the state government anchors.

In our view, offsetting credit strengths include:

- Competitive parking rates, providing the flexibility to raise rates, except under the long-term agreement with DASNY; and
- A relatively stable and balanced financial performance.

APA has approximately $21.9 million of bonds outstanding, with final maturity in 2025. All of the bonds are fixed-rate.

A pledge of, and lien on, net revenues of the system, subject to payment of the closed prior-lien series 1992A bonds, secures the bonds. A debt service reserve, funded to the lesser of 125% average annual debt service, maximum annual debt service (MADS), or 10% par, also secures the bonds. Standard & Poor's considers the bond provisions, including a 1.5x rate covenant that depends on how the authority classifies expenses under its budget, to be permissive. Meanwhile, the additional bonds test requires APA to satisfy a historical and projected 1.35x MADS test before it can incur additional debt to fund capital projects. It may issue refunding bonds if the resulting MADS does not exceed 110% of MADS before the refinancing.

The authority's parking facilities consist of approximately 1,975 on-street parking meters and the Columbia Street Garage, the Hudson Street Garage, the Quackenbush Garage, and surface lots. The garages provide about 30% of downtown Albany's public parking supply; APA's total system (parking garages, surface lots, and on-street meters) provides 40%.

System demand has declined. In 2010, the authority's three garages had an average monthly paid usage of 1,786 spaces, compared to 1,958 in 2009 and an average daily paid usage of 216, down from 241 the previous year. The three garages collectively have 2,620 spaces. In August, APA instituted a parking incentive program that allowed new monthly customers to lease spaces at half the cost of the published rate, with no increase over the life of the lease. Management reports that 110 spaces have been leased under this program.

Combined debt service coverage of previous lease bonds and the 2001 bonds (Standard & Poor's-calculated) has been good recently, except for fiscal 2009 (year ends Dec. 31), when it was 1.02x, after 1.36x in 2008 and then rebounding to 1.28x in unaudited 2010. It is budgeted at 1.21x in 2011. The 2009 ratio was due to a decrease in parking revenues, to $5.9 million from a peak of $6.0 million in 2007, and an increase in operating expenses to $5.1 million (including repairs and maintenance). Although parking revenues fell to $5.5 million 2010 and are budgeted to be the same in 2011, the authority has managed to contain its operating expenses through cuts to operations, staff reorganizations and salary freezes; in 2010 operating expenses were about $4 million and is budgeted for the same in 2011.

Debt service coverage per the indenture and per APA's classification of expenses under its budget ranged from a low of 1.55x in the past three years (2009) to 1.79x (2008). The authority budgets it at 1.81x in 2011. After required debt service payments, APA has agreed to annual payments to reimburse the city for costs related to public service officers (PSO). As a result, it excludes these PSO expenses when it tests its 1.5x rate covenant. Per its classification of repairs and maintenance expenses under its budget, it excludes these expenses from its indenture coverage calculation. Standard & Poor's includes PSO expenses, which are classified as an operating expense in the authority's audited financial statements, and treats them as an operating expense in its debt service calculations. Although the expenses related to repair and maintenance of the authority's facilities are paid from operating revenue and are treated as operating expenses in APA's audit, Standard & Poor's does not include these expenses in its coverage calculations, because we view these as capital expenses. Treating repairs and maintenance expenses and PSO expenses as an operating expense, combined coverage is 1.05x for 2008, 0.78x for 2009, an estimated 0.99x for 2010, and a budgeted 0.89x for 2011.

The authority originally undertook a five-year capital plan running through 2010 to be funded from surplus cash flow at a cost of about $4.1 million. There was no system expansion, only renovation to the existing garages. However, due to revenue declines, APA stretched the plan to six years about midway through execution. This included capital spending of about $700,000 in 2010 and budgeted at $1 million in 2011. The authority estimates that the capital spending thereafter will drop significantly. Furthermore, there is no debt planned in 2011 and management reports that it is unlikely for 2012.

APA's liquidity position remains weak compared with pre-2008 figures, but remains adequate, in our view. With $1.1 million in unrestricted cash as of Jan. 31, 2011, the authority had about 100 days' cash on hand against 2011 budget, down from 110 the previous year. However, as per a resolution to maintain an increased liquidity figure, we expect APA to transfer $600,000 from its renewal and replacement fund, which currently has a balance of $934,000. With the transfer, the liquidity figure would rise to 156 days. The renewal and replacement reserve is a trustee-held fund established to pay renewal and replacement expenses, operating and maintenance expenses, or f debt service in case amounts in deposit in the debt service fund and debt service reserve fund are insufficient. Per the indenture, APA is required to deposit $150,000 ($50,000 per garage) each year into this fund.

The authority has entered one floating-to-fixed rate forward starting swap, with a start date of July 19, 2011. Under the terms, the authority will pay a synthetic fixed rate of 3.876% and Dexia Credit Local (A/Negative/A-1) pays a floating rate equal to 69% of one-month LIBOR. Net swap payments will be on par with the 2011 bonds, while swap termination payments will be subordinate to all of the authority's parking system revenue bonds. Syncora Guarantee Inc. (not rated) insures the net swap payments. As of January 2011, the mark-to-market valuation for the swap is $900,000 in the counterparty's favor.

We have assigned APA a Standard & Poor's Debt Derivative Profile (DDP) of '1.5' on a scale of '1' to '4', '1' representing the lowest risk. The DDP indicates our view that the swap portfolio represents very low risk to the authority. More specifically, we attribute the DDP to adequate swap management policies, low termination risk, and the swaps' moderate economic viability. Swap provisions include an additional termination event if the rating on the counterparty falls below 'A-'; should a termination event occur, management has indicated that such payments would be cash-funded and subordinate to the bonds. Given the relative proximate date of the forward-starting swap, the authority is considering alternatives.

Outlook

The stable outlook reflects our expectation that the parking system will maintain good debt service coverage and an adequate liquidity position in the next two years. The stable outlook also reflects our assumption that any financial impact of the forward swap--whether it goes live, it is terminated at APA's cost, or another option is found--will not have a significant negative effect. If liquidity erodes or parking revenue declines significantly as evidence of less demand, we could lower the rating. We do not expect to raise the rating during the outlook period.

Related Criteria And Research

- USPF Criteria: Parking Revenue Bonds, June 13, 2007
- USPF Criteria: Debt Derivative Profile Scores, March 27, 2006

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