

RatingsDirect®

Summary:

Prattville, Alabama; General Obligation

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Credit Profile

US\$9.995 mil go rfdg warrants ser 2014 dtd 07/01/2014 due 11/01/2026

<i>Long Term Rating</i>	AA-/Stable	New
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Prattville GO

<i>Long Term Rating</i>	AA-/Stable	Upgraded
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Prattville GO

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A' on Prattville, Ala.'s outstanding general obligation (GO) debt. The raised ratings are due primarily to our view of the city's significant improvement of its financial position during the past three fiscal years. At the same time, Standard & Poor's assigned its 'AA-' long-term rating to the city's series 2014 GO refunding warrants. The outlook is stable.

The ratings reflect our opinion of the city's:

- Adequate economy, which benefits from access to the broad and diverse Montgomery metropolitan statistical area (MSA);
- Adequate management with standard financial practices;
- Strong budgetary flexibility, with reserves in excess of 15% of operational expenditures for the past two fiscal years;
- Very strong liquidity, with total government available cash covering 36% of expenditures and 173% of debt service;
- Strong budgetary performance; and
- Weak debt and contingent liabilities profile.

The warrants are secured by the city's full faith and credit pledge. GO warrant proceeds will be used to refund a portion of the city's outstanding debt for savings purposes.

Adequate economy

In our opinion, Prattville's local economy is adequate, with per capita market value at roughly \$57,800 and projected per capita effective buying income at 101% of the national average. The city is located approximately 12 miles north of the state capital, Montgomery -- home to many state agencies and Maxwell-Gunter Air Force Base. According to city officials, more than half of the working population commutes to Montgomery for employment opportunities. We view the city's access to this broad and diverse MSA as a credit strength. According to the Bureau of Labor Statistics, the Autauga County unemployment rate for 2013 was 5.7%, which we consider low. City officials report that the local economy has remained stable, with no major layoffs or businesses closures in the past year. The leading employer located within the city is International Paper Company, which specializes in paper used for boxes and has continued to

grow its demand. Residential development is ongoing within the city, and new home prices average between \$300,000 and \$350,000, according to city officials.

Adequate management

In our opinion, Prattville's management conditions are adequate with "standard" financial practices under our Financial Management Assessment (FMA) methodology, indicating the government, in our opinion, maintains adequate policies in some, but not all, key areas. Strengths of the assessment, in our opinion, include the city's use of conservative revenue and expenditure assumptions in its budgeting process, strong oversight in terms of monitoring its progress against the budget during the year, ability to amend the budget as needed, formal policy of maintaining at least 15% in reserves, broadly outlined formal investment policy, and monthly updates to the city council regarding the budget and investments. The city has recently developed a fleet replacement program for its police and fire vehicles, although a capital improvement plan for other aspects of the city is not yet in place. The city currently lacks formalized policies in this area, as well as in long-term financial planning.

Strong budgetary flexibility

We believe Prattville's budgetary flexibility is strong, with available reserves at approximately \$6.7 million, or 27.4% of operating expenditures, in fiscal 2013. The city's available general fund reserves include not only the assigned and unassigned fund balances, but also those funds classified as committed but available for operations. The city's reserves have grown significantly during the past three fiscal years. In fiscal 2010, the city's general fund balance dipped to negative \$2.3 million due general fund support for city water and sewer operations. Since then, city management moved those operations to an enterprise fund, raised water and sewer rates, and updated equipment for efficiencies, and as a result water and sewer fund operations are now positive. In the meantime, the city has also implemented a one-cent sales tax dedicated for debt service and reserve accounts. The city's financial position has improved significantly as a result of these efforts. The city has no plans for significant draws on its reserves at this time.

Very strong liquidity

We believe very strong liquidity supports Prattville's finances, with total government available cash to government fund expenditures and cash to debt service at 36% and 173%, respectively. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Strong budgetary performance

In our view, Prattville's budgetary performance is strong overall, with a surplus of 7.7% for the general fund and a surplus of 21.2% for the total governmental funds in fiscal 2013. The city conservatively anticipates a roughly \$1 million general fund surplus for fiscal 2014, and it plans for a balanced budget for fiscal 2015.

Weak debt and contingent liabilities profile

In our opinion, Prattville's debt and contingent liabilities profile is weak. Net direct debt is 126.8% of total governmental funds revenue, and total governmental funds debt service is 20.9% of total governmental funds expenditures. Approximately 70% of the debt is repaid within 10 years, which we view as a credit strength.

Last year, Prattville contributed 100% of its annual required pension contribution. Annual pension and other postemployment benefit costs accounted for 4% of the total government expenditures in fiscal 2013.

Strong institutional framework

We consider the institutional framework score for Alabama cities and towns as strong. See Institutional Framework score for Alabama.

Outlook

The stable outlook reflects our expectation that city officials will continue to closely monitor the budget and utilize current financial management policies in order to maintain the city's strong and improving financial position and to avoid another deterioration. The outlook also reflects our opinion that the city will continue to benefit from its access to the broad and diverse Montgomery MSA. Although we do not expect to change the ratings within the two-year outlook time frame, a deterioration of the city's financial position could lead us to lower the ratings. Conversely, we could take a positive rating action in response to a further strengthening of the city's financial position and policies.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Alabama Local Governments

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