

# RatingsDirect®

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## Summary:

# Prattville, Alabama; Appropriations; General Obligation

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### Credit Profile

US\$13.495 mil GO swr warrants ser 2017 due 09/01/2046

*Long Term Rating*

AA-/Stable

New

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Prattville, Ala.'s series 2017 general obligation (GO) sewer bonds. At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating and underlying rating (SPUR) on the city's GO debt outstanding. The outlook is stable.

The warrants constitute GO of the city for the payment of which Prattville's full faith and credit and taxing power is irrevocably pledged. The property tax pledge in Alabama is limited; the state has statutory tax limitations that include levies for debt service. While the tax is technically limited, our analysis focuses on the strength of the full-faith-and-credit pledge, which we view as being of equal credit quality as an unlimited GO tax.

The series 2016 Historic Prattville Redevelopment Authority redevelopment bonds are secured by lease payments made to the authority by the city. We rate the bonds on parity with the city's GO debt because the lease payments are not subject to appropriation and the city's obligation to make these payments is absolute and unconditional.

Proceeds from the warrants will fund improvements to the city's wastewater infrastructure.

The rating reflects our assessment of the following factors for the city:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 55.7% of total governmental fund expenditures and 4.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 12.3% of expenditures and net direct debt that is 148.0% of total governmental fund revenue, as well as significant medium-term debt plans; and
- Strong institutional framework score.

### Adequate economy

We consider Prattville's economy adequate. The city, with an estimated population of 34,121, is located in Autauga and Elmore counties in the Montgomery MSA, which we consider to be broad and diverse. The city has a projected

per capita effective buying income of 89.2% of the national level and per capita market value of \$61,656. Overall, the city's market value grew by 2.5% over the previous year to \$2.1 billion in 2016. The weight-averaged unemployment rate of the counties was 5.3%.

Prattville is located in central Alabama, about 15 miles from Montgomery, the state capital, and Maxwell Air Force Base. The proximity to Montgomery and the highway system, including Interstate 65, U.S. Highways 82 and 31, and Alabama Highway 14, have contributed to the city's growth.

While the city has traditionally been a bedroom suburb of Montgomery, the city's commercial base has grown in the past decade. This includes retail establishments, which the city helped to attract by providing developer incentives. International Paper Co., which opened in 1967, continues to be the largest employer in the area. Several smaller industries related to plastics, automotive-industry-related manufacturing, packaging, and power generation also have a presence in the city. Despite the ongoing growth in the city, a large percentage of Prattville's residents work outside of the city, with the majority of commuters working in Montgomery.

As a result of large annexations by the city in the past few years, the land area of the town continues to increase. Prattville's boundaries have spread into Elmore County as it has expanded eastward toward the interstate. Despite a lack of opportunity for further eastward expansion of Prattville given bordering communities, management will consider future annexation opportunities and notes that growth may occur to the north and west. Most residential growth within the city limits occurs within Autauga County. Officials report that annual permit activity is healthy and expect to add about 2,000 new homes within the next 10 years. Much of the commercial growth occurs within the Elmore County area. Recently, James Hardie Building Products announced plans to build an advanced fiber-cement manufacturing plant in Prattville, an investment of up to \$220 million that will also create 205 jobs.

We expect the city to continue to benefit from its location within the Montgomery MSA and anticipate that the city's tax base will grow modestly given ongoing development. However, we don't expect material changes to the city's economic fundamentals over the next two years.

### **Adequate management**

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

The city's policies and procedures include developing revenue and expenditures assumptions based on a three- to four-year historical trend. Assumptions are conservative, in our view, including sales tax revenue growth rate below historical actual results. The city can amend the budget as needed, and the city council receives monthly budget-to-actual reports. Prattville has a formal investment policy that follows state guidelines, with monthly updates to the council. Last, the city has a formal policy of maintaining reserves at 15% to afford it flexibility in case of unexpected revenue declines and emergencies. The city is in compliance with the policy and has no plans to draw reserves down below that level. Prattville lacks policies relating to long-term financial and capital planning as well as debt management.

### **Strong budgetary performance**

Prattville's budgetary performance is strong, in our opinion. The city had operating surpluses of 5.5% of expenditures in the general fund and of 14.9% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 results in the near term.

We adjusted general fund expenditures for recurring transfers to debt service and internal service funds. The city attributes the strong fiscal 2016 performance to conservative budgeting and healthy local economy with ongoing development, which contributes to strong sales tax growth. Major general fund revenue sources consisted of sales and use taxes (63% of total revenue), followed by business licenses (14%) and property taxes (8%).

The city's fiscal 2017 budget is balanced and officials report that year-to-date results are trending in line with the budget. The fiscal 2018 budget is not yet finalized, but officials expect no material changes in performance. Sales tax growth continues to be strong, but the city's significant reliance on this revenue source makes city operations sensitive to the national business cycles. The makeup of the city's revenue could pose operational challenges if an economic slump leads to a slowdown in revenue growth and costs continue to rise. However, given the city's history of better-than-budgeted results and operating surpluses, we anticipate its performance will remain strong over the next two years.

### **Very strong budgetary flexibility**

Prattville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 23% of operating expenditures, or \$7.9 million.

We believe Prattville's budgetary flexibility will remain very strong over the next two years given the city's historical reserves and ability to outperform budgets.

### **Very strong liquidity**

In our opinion, Prattville's liquidity is very strong, with total government available cash at 55.7% of total governmental fund expenditures and 4.5x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary, as demonstrated through frequent issuance of GO debt over the past 20 years. The city has historically had what we consider very strong cash balances, and given our expectations for fiscal years 2017 and 2018, we do not believe its cash position will worsen. All of the city's investments comply with state statutes and consist of bank deposits.

Prattville has several series of direct purchase debt outstanding, including series 2013 GO sewer warrants, series 2016 GO warrants, and series 2016 and 2017 state revolving fund (SRF) GO warrants. Legal provisions include events of default that we view as permissive, and acceleration is an available remedy. The total amount of direct debt outstanding subject to acceleration is \$1 million. The city is also in the process of obtaining another SRF loan of as much as \$17 million, the provisions of which are not certain. However, given available cash and cash equivalents of \$19 million at fiscal year-end 2016 as well as a history of market access, we don't believe that the debt, if accelerated, would cause imminent liquidity pressures.

### **Very weak debt and contingent liability profile**

In our view, Prattville's debt and contingent liability profile is very weak. Total governmental fund debt service is

12.3% of total governmental fund expenditures, and net direct debt is 148.0% of total governmental fund revenue. Negatively affecting our view of the city's debt profile are its significant medium-term debt plans.

The city anticipates issuing approximately \$20 million of additional GO debt within the next two years, including an SRF loan of as much as \$17 million. We expect the city's debt profile to remain very weak given the near-term issuance plans.

Prattville's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.3% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution.

The city contributes to an agency multi-employer defined benefit pension plan administered by the Retirement Systems of Alabama. An actuary determines contribution rates annually. Using updated reporting standards in accordance with Governmental Accounting Standard Board Statement Nos. 67 and 68, the city recorded a net pension liability of \$14 million as of Sept. 30, 2015, the most recent actuarial valuation date. The plan reported a funded ratio of 73%.

The city also provides retiree health benefits through a single-employer health insurance plan. The city recorded a net OPEB liability of \$4 million at fiscal year-end 2016. The plan is funded on a pay-as-you-go basis.

### **Strong institutional framework**

The institutional framework score for Alabama cities and towns is strong.

## **Outlook**

The stable outlook reflects our view that the city will continue to benefit from its location in the Montgomery MSA and that its key economic indicators will remain stable as a result of ongoing economic expansion. The stable outlook also reflects our view that the city's reserves will remain what we consider very strong, and that management will maintain structurally balanced operations. We do not expect to change the rating over the two-year outlook horizon.

### **Upside scenario**

We could raise the rating in case of a significant expansion of key economic ratios, coupled with more formalized policies and plans that we believe are most likely to affect credit quality.

### **Downside scenario**

We could lower the rating if economic indicators deteriorate and if key revenue sources decline materially, resulting in weakened budgetary performance and a drop in reserves to levels that we no longer consider very strong and in line with those of the city's peers.

## **Related Research**

2016 Update Of Institutional Framework For U.S. Local Governments

**Ratings Detail (As Of September 15, 2017)**

**Ratings Detail (As Of September 15, 2017) (cont.)**

|  |                  |          |
|--|------------------|----------|
| Prattville GO  |                  |          |
| <i>Long Term Rating</i>                                | AA-/Stable       | Affirmed |
| <b>Prattville GO</b>                                   |                  |          |
| <i>Unenhanced Rating</i>                               | AA-(SPUR)/Stable | Affirmed |
| <b>Historic Prattville Redev Auth, Alabama</b>         |                  |          |
| Prattville, Alabama                                    |                  |          |
| Historic Prattville Redev Auth (Prattville) redev bnds |                  |          |
| <i>Long Term Rating</i>                                | AA-/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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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