

## City of Talladega, Alabama

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**Credit Profile**

**US\$1.155 mil General Obligation Warrants, Series 2010 due 08/01/2025**

Long Term Rating	A/Stable	New
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**Outstanding Revenue Bonds (Honda Project), Series 2008A**

Long Term Rating	A/Stable	Affirmed
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**Outstanding General Obligation Warrants, Series 2008 (ASSURED GTY)**

Unenhanced Rating	A(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

### Rationale

Standard & Poor's Ratings Services assigned its 'A' long-term rating, and stable outlook, to Talladega, Ala.'s series 2010 general obligation (GO) warrants and affirmed its 'A' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

In our view, the rating reflects the city's:

- Attraction as a tourist destination that draws more than 300,000 visitors annually;
- Good financial position, evidenced by good reserves; and
- Low debt burden.

In our opinion, these credit strengths are offset, in part, by the city's:

- Sales tax revenue stream, which is susceptible to economic cycles and accounts for 56% of general fund revenues; and
- Adequate, yet below-average, income levels.

The city's full faith and credit pledge secure the warrants. Officials plan to use warrant proceeds to purchase capital equipment and make various capital improvements to the city.

Talladega, with a population estimate of 15,143, is in Talladega County, about 50 miles east, southeast of Birmingham, Ala. and 105 miles west of Atlanta, Ga. Residents have job

opportunities in small-to-midsize manufacturing and light industry firms and educational services. The city's leading employers are:

- Alabama Institute for the Deaf and Blind (985 employees),
- Baptist Citizen Medical Center (322), and
- Talladega Board of Education (321).

Residents also have access to other employers in the county, including Honda Manufacturing of Alabama LLC (4,500 employees), Talladega County Board of Education (952), and a Honda parts supplier (610). In May 2008, Georgia Pacific, which was a plywood manufacturer and a leading employer in the city, laid off about 430 employees. Management, however, does not expect to lose its property tax revenues with the plant's closing. At this point, Georgia Pacific does not plan to sell the facility. In addition, a cabinet manufacturer downsized to 240 employees in 2009 from 400. Overall, county unemployment increased to 13.7%, as of December 2009, from its 6.5% average in 2008. Per capita income is adequate, but median household effective buying income is a below-average 71% of the nation.

The city is home to Talladega International Superspeedway and the Motorsports Hall of Fame. The superspeedway brings in about 300,000 people per race. The superspeedway has attracted several new hotels to the area, including a Holiday Inn Express and a Motel 8. Its destination as a tourist attraction boosts per capita retail sales to a good 101% and 102% of state and national levels, respectively. Taxable assessed valuation (AV) decreased by 13% in fiscal 2009 to \$109 million, or \$545 million of market value, due to the decline in area home prices. The 10 leading taxpayers accounted for a diverse 18% of total AV in fiscal 2009.

The city's financial position is good, evidenced by its maintaining good reserves despite recent declines in sales tax revenues. The city ended fiscal 2008 with \$2.4 million of reserves, or a very strong 18% of expenditures. The city is sales tax dependent, and its sales tax revenue stream has fluctuated during the recent economic cycle. Sales tax revenues declined by \$450,000, or 6.2%, in fiscal 2009; this caused the city to draw down unreserved fund balance to an estimated \$1.5 million for fiscal 2009. Sales tax revenues accounted for 56% of fiscal 2008 revenues, and officials have budgeted for zero growth in fiscal 2010. The city expects to maintain \$1.1 million of reserves, or a good 8.4% of expenditures, for fiscal 2010. In addition, the city has identified roughly \$1.6 million of potential cost-saving measures for fiscal 2010 if sales tax revenues continue to decline.

Standard & Poor's deems Talladega's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Officials monitor the budget quarterly, and they have the flexibility to make adjustments as needed. The city's formal investment policy follows investment guidelines outlined by state statutes, and management provides the governing body with annual updates. The city's adopted reserve policy targets 8%-10% of undesignated general fund balance. The city lacks policies in some areas, including long-term financial and debt management plans.

The city's overall net debt burden is a very low \$992 per capita, or about 2.8% of estimated true value. Amortization is average with officials planning to retire 42% of GO debt principal over 10 years. Carrying charges were an average 5% of fiscal 2008 total governmental expenditures less capital outlay. Officials are considering issuing debt for grant-matching purposes, but they do not have current additional debt plans.

## **Outlook**

The stable outlook reflects Standard & Poor's expectation that the city should abide by its reserve policy and maintain good reserves despite sales tax revenue stream fluctuations. In addition, we expect the city to continue to identify cost-saving measures as necessary to maintain its good financial position and we expect overall debt should remain low. The city's credit quality might improve if it maintains good reserves and operates structurally balanced financial operations while monitoring its sales tax revenue stream closely.

Scott Sagen contributed to this report.

## **Related Criteria And Research**

USPF Criteria: GO Debt, Oct. 12, 2006

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