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Summary:

Talladega County Industrial Development Authority, Alabama; General Obligation

Primary Credit Analyst:

Lauren H Spalten, Dallas 214-871-1421; lauren.spalten@standardandpoors.com

Secondary Contact:

Brian J Marshall, Dallas 214-871-1414; brian.marshall@standardandpoors.com

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Credit Profile

Talladega Cnty Indl Dev Auth (Honda Proj) ser 2008A

<i>Long Term Rating</i>	A/Stable	Affirmed
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Talladega GO warrants ser 2010 due 08/01/2025

<i>Long Term Rating</i>	A/Stable	Affirmed
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Talladega GO (ASSURED GTY)

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

Rationale

Standard & Poor's Ratings Services affirmed its 'A' long-term rating and underlying rating (SPUR) on Talladega, Ala.'s series 2008 and series 2010 general obligation warrants outstanding. At the same time, Standard & Poor's affirmed its 'A' long-term rating on Talladega County Industrial Development Authority's series 2008A revenue bonds (Honda Project). The outlook is stable.

The ratings reflect our view of the city's:

- Attraction as a tourist destination, coupled with a lack of taxpayer concentration;
- Very strong financial position; and
- Low overall net debt burden.

These credit strengths are partly offset, in our view, by the city's:

- Low income levels and adequate wealth levels, and
- Reliance on sales tax revenues, which tend to be cyclical in nature.

The city's full faith and credit pledge secure the warrants. The bonds are secured by payments to the authority from the city, and the city's obligation to make such payments is a general obligation of the city secured by the city's full faith and credit.

The City of Talladega, with a population of roughly 16,000, is in Talladega County, Ala. The city is about 50 miles east-southeast of Birmingham, Ala. and 105 miles west of Atlanta. Residents have job opportunities in small to midsize manufacturing and light industry firms and in educational services, as well as several nearby companies including Honda Manufacturing of Alabama in the City of Lincoln. Recent development includes the recent opening of M-Tek Enterprises, a supplier of Honda Manufacturing of Alabama, in January 2013 (expected to add 120 jobs by the end of the year). The city is home to Talladega International Superspeedway and the Motorsports Hall of Fame. The superspeedway has the capacity to hold up to 175,000 spectators. New residential construction has reportedly

continued at a stable rate. Income levels remain low, in our view, with per capita effective buying income at about 63% of the national average. After dropping by a cumulative 11% from fiscal years 2007 to 2009 due to home price declines, the city's taxable assessed value (AV) increased by 4% in fiscal 2010 and remained stable for fiscal 2011 at approximately \$113.7 million. Estimated full market value for fiscal 2011 was approximately \$568.5 million. There is no concentration in the city's taxpayers. Market value per capita, an indication of wealth, is adequate, in our view, at approximately \$43,658.

Talladega's financial position is very strong, in our view. In April 2011, the city raised the sales tax by one cent, one-half cent of which is designated for the city's general fund. Following this implementation, as well as certain cost-saving measures such as strict budget monitoring and not filling all empty positions, the city ended fiscal years 2011 and 2012 with surpluses of approximately \$598,000 and \$1.3 million, respectively. These surpluses boosted the total available general fund balance to approximately \$4.06 million, or 38% of operational expenditures by the close of fiscal 2012, which we consider very strong. The city council has set aside about \$1.4 million of this amount (equal to about 8% to 10% of operating expenditures) to maintain as the city's reserve. The city council would need to pass an ordinance to use these funds. Sales tax revenues constitute the majority of the city's general fund revenues, and accounted for about 60% of fiscal 2012 general fund revenues. For fiscal 2013, the city adopted a slight deficit budget of about negative \$127,000. This deficit is due to the intentional use of about \$2.2 million of fund balance for purposes including salary increases, paying off certain debt obligations, transfers to other funds for various capital purposes, and the funding of part of the city's other postemployment benefits (OPEB) liability. Following this intentional drawdown, the city conservatively anticipates maintaining about \$500,000 above its reserve level, for a total projected ending general fund balance of roughly \$1.9 million (equal to an approximated 18% of operational expenditures). City officials intend to adopt a balanced budget for fiscal 2014. Current projections indicate that sales tax revenues will remain level for at least the near term.

Standard & Poor's deems Talladega's financial management practices "good" under its financial management assessment (FMA) methodology, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Officials monitor the budget quarterly and 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 an 8% to 10% 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 very low, in our view, at \$848 per capita and about 2.8% of estimated market value. The city's debt amortization schedule is slower than average, with about 35% of principal retiring during the next 10 years and 73% within the next 20 years. Debt service carrying charges accounted for about 7% of expenditures in fiscal 2012. We understand that the city currently has no plans to issue additional debt for at least the next two years.

Talladega participates in the Alabama Employees' Retirement System, an agent multiple-employer public retirement system. State statute specifies the city's contribution rate, and it determines the rate by an actuarial method. The city continues to fund 100% of its annual required contributions. As of Sept. 30, 2011, the most recent actuarial valuation

date, the plan was 85.9% funded. The city provides health insurance to employees who retire with 25 years of continuous service, or who have 10 years of continuous service and are age 62. As of Jan. 1, 2012, the unfunded actuarial accrued liability totaled about \$3.4 million for the city's OPEB. The city council recently approved the allocation of \$300,000 toward mitigating the OPEB liability and agreed to adopt a policy to continue funding this liability with the goal of accumulating a lump sum before actually establishing a trust due to the costs involved. This policy is slated to be adopted by the end of fiscal 2013 and funding included in subsequent budgets, with the goal of establishing an OPEB trust within the next three years.

Outlook

The stable outlook reflects our anticipation that the city's financial position will remain very strong, which will likely help management to mitigate the potential fluctuations in sales tax revenues. We do not expect to change the ratings within the two-year outlook time frame. However, continued economic expansion and an improvement in the city's underlying economic indicators could lead us to raise the ratings. Conversely, a substantial deterioration of the city's financial position could place downward pressure on the ratings.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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