

RatingsDirect®

Summary:

Talladega, Alabama; General Obligation

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Credit Profile

US\$2.78 mil GO warrants ser 2015 due 08/01/2033

<i>Long Term Rating</i>	AA-/Stable	New
Talladega GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	New Rating
Talladega Cnty Indl Dev Auth		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Talladega GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to the Talladega, Ala.'s series 2015 general obligation (GO) warrants. At the same time, Standard & Poor's assigned its 'AA-' underlying rating to the city's series 2007 GO warrants. Standard & Poor's has also withdrawn its 'AA-' rating on the city's series 2010 GO warrants, as those bonds were never sold. Finally, Standard & Poor's affirmed its 'AA-' rating on Talladega's and Talladega County Industrial Development Authority's GO debt. The outlook on all ratings is stable.

Talladega's full faith and credit pledge secures the warrants. We understand that proceeds from the sale of the warrants will be used to refund a portion of the city's existing debt for interest savings.

The ratings reflect our assessment of the following factors for Talladega:

- Very weak economy, with a concentrated employment base;
- Strong management, with "good" financial policies;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2013 of 24% of operating expenditures;
- Strong budgetary performance, with both general fund and total governmental fund producing net surpluses in fiscal 2013;
- Very strong liquidity, with total government available cash of 78.2% of total governmental fund expenditures and 12.6x governmental debt service and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges of 6.2% and net direct debt that is 56.7% of total governmental fund revenue and low overall net debt less than 3% of market value; and
- A strong institutional framework score.

Very weak economy

We consider Talladega's economy to be very weak. Talladega, with an estimated population of 16,092, is located in Talladega County. The city has a projected per capita effective buying income of 50.8% of the U.S. level. Overall, the

city's market value grew by 0.6% over the past year to \$725 million, equaling per capita market value of \$45,056 in 2015. Weakening Talladega's economy is a concentrated employment base, with a single sector accounting for more than 30% of the county's of total employment. The county unemployment rate was 7.1% in 2013.

The city is located about 50 miles southeast of Birmingham, and 105 miles west of Atlanta, Ga. Honda of Alabama is located within Talladega County, and is largest employer within the county. The city, however, is home to several small-to-midsized manufacturing and light industry firms, some of which specialize in supplying Honda auto parts. The city attracts more than 300,000 spectators annually to racing events, with the Talladega International Speedway nine miles north of the city.

Strong management

We view the city's management conditions as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Revenue and expenditure assumptions are based on historical trends of the past five years, and recent performance. Officials monitor the budget monthly 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. Talladega lacks policies in some areas, including long-term financial and debt management plans. The city does, however, maintain a biannual capital improvement.

Very strong budgetary flexibility

Talladega's budgetary flexibility is very strong, in our view, with an available fund balance in 2013 of 24% of operating expenditures, or \$3.3 million.

As a result of the city's formal reserve target, we believe Talladega routinely reduces its general fund reserve levels to account for capital projects on a pay-as-you-go basis. In 2013, for example, the city transferred more than \$1 million to its capital projects fund from the general fund as part of the approved fund balance reduction plan. The funds were used for Veterans Park improvements and for a grant match for three bridge replacements. In fiscal 2015, we believe Talladega's ending available fund balance will be about \$4.6 million, or about 35% of operating expenditures.

Strong budgetary performance

Talladega's budgetary performance is strong, in our opinion, with positive results in the general fund of 1.5% and a positive result across all governmental funds of 5.8% of in fiscal 2013.

We expect the city will experience another net surplus in its general fund and across all governmental funds in fiscal 2014 but, due to capital spending, there may be a slight operating deficit in fiscal 2015. Given past performance, in which expenditures had been less than budgeted, and one-time spending, we expect the city will maintain at least balanced operations in its general fund and across all funds. Sales tax makes up more than 60% of general fund revenues, but has shown stable growth in recent years.

Very strong liquidity

In our opinion, Talladega's liquidity is very strong, with total government available cash of 78.2% of total governmental fund expenditures and 12.6x governmental debt service in 2013. In our view, the city has strong access to external liquidity if necessary.

Very strong debt and contingent liabilities

In our view, Talladega's debt and contingent liability profile is very strong. Total governmental fund debt service is 6.2% of total governmental fund expenditures, and net direct debt is 56.7% of total governmental fund revenue. Overall net debt is low at 1.7% of market value, which in our view is a positive credit factor. Talladega's combined pension and other postemployment benefits (OPEB) contributions totaled 5% of total governmental fund expenditures in 2013. Of that amount, 4.2% represented contributions to pension obligations, with the remainder representing OPEB payments. The city made its full annual required pension contribution in 2013.

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, 2012, the most recent actuarial valuation date, the plan was 69.8% funded. Talladega 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 Oct. 1, 2011, the most recent actuarial valuation date, the unfunded actuarial accrued liability totaled about \$3.4 million for the city's OPEB. Since 2013, Talladega has worked to establish an OPEB trust to reduce this liability. To date, the trust stands at \$750,000, and the city plans to add about \$250,000 to the trust annually.

Strong institutional framework

The Institutional Framework score for Alabama cities and towns is strong.

Outlook

The stable outlook reflects our expectation that Talladega's budgetary flexibility position will remain very strong, which will likely help management mitigate any potential fluctuations in sales tax revenues. We do not expect to change the ratings within the two-year outlook time frame. However, a substantial deterioration to reserve levels or the city's budgetary performance could place downward pressure on the rating. An upgrade is unlikely, all things equal, given the very weak economy that is concentrated in manufacturing.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

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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