

RatingsDirect®

Summary:

Prattville, Alabama; General Obligation

Primary Credit Analyst:

Daniel Cuddy, Boston (1) 617-530-8120; daniel_cuddy@standardandpoors.com

Secondary Contact:

Edward R McGlade, New York (1) 212-438-2061; edward_mcglade@standardandpoors.com

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Credit Profile

US\$9.83 mil GO rfdg warrants ser 2013-A dtd 04/01/2013 due 03/01/2027

<i>Long Term Rating</i>	A/Stable	New
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Prattville GO

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

Rationale

Standard & Poor's Ratings Services raised its underlying rating (SPUR) to 'A' from 'A-' on the city of Prattville, Ala.'s general obligation (GO) debt. The upgrade reflects the city's improved financial position following the implementation of improved budgeting practices and expenditure reductions. Additionally, we assigned our 'A' long-term rating to the city's series 2013A GO refunding warrants. The outlook on all the ratings is stable.

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The rating reflects our view of the city's:

- Inclusion in the Montgomery metropolitan statistical area (MSA), which serves as a regional economic base and is anchored by the presence of the state government and the Maxwell Air Force Base;
- Good incomes, in terms of median household effective buying income; and
- Moderate debt levels, coupled with limited future capital needs.

These strengths are offset by the city's high debt service carrying charges.

Although the city pledges no specific tax or other revenue source for repayment of the outstanding warrants, a full faith and credit pledge ultimately secures the debt.

Prattville, with a population of roughly 34,400, is in central Alabama, in Autauga and Elmore counties. The city is approximately 12 miles north of the state capital, Montgomery--home to many state agencies and Maxwell-Gunter Air Force Base. Prattville's inclusion in the Montgomery MSA provides the city with a solid, growing economic and employment base. While the city's taxable value has decreased by 1.4% in fiscal 2013, the property tax base has risen by a cumulative 21% since fiscal 2008, to \$356.9 million, or an estimated market value of \$1.98 billion, in fiscal 2013. The property tax base is concentrated, in our opinion, with the leading 10 taxpayers accounting for 55% of the city's total assessed value (AV).

Due to extensive commercial development, the city's primary source of income--sales tax revenue--has increased by 40% in the past five fiscal years. In addition to a growing number of retailers, the city is home to a few major international industrial manufactures, including an Argentinean brake manufacturer and a Japanese automotive part

supplier. The city still has a large residential presence, with housing accounting for the largest share, or 42.6%, of land use. Median household income is, in our opinion, a good 105% of the national level. Market value is a strong \$57,000, per capita.

Prattville's financial position is good, in our opinion. Management projects the city will end fiscal 2013 with an additional \$500,000 increase to the unreserved general fund, resulting in a total unassigned fund balance of \$1.6 million, or a good 6.4% of operating expenditures. For fiscal 2012, unaudited results indicate the city ended with a \$500,000 surplus, resulting in a total unassigned fund balance of \$1.09 million, or a good 4.4% of operations. Additionally, the city's assigned general fund balance, earmarked for its health insurance program, is \$1.5 million, resulting in a combined unassigned and assigned general fund balance of \$2.6 million, or a strong 10% of operating expenditures. The 2012 surplus operations reflect increased sales tax revenues generated as a direct result of a 1% sales tax increase adopted May 2011. Audited results for fiscal 2011 reflect an unassigned general fund balance of \$550,000, or an adequate 2% of operating expenditures. The city has taken several cost-cutting measures to help rebuild its reserves, including instituting a hiring freeze, cross-training employees, and renegotiating its phone system contracts. City officials will not begin addressing the 2014 budget until May.

Sales tax revenue accounts for nearly 86% of the city's general fund revenue, or \$22.4 million in fiscal 2012. Since fiscal 2008, sales tax revenue increased by roughly 41%. The city budgeted for flat growth in sales tax revenue for fiscal 2013, but is on track to exceed the budgeted amount by 1% to 2%. The 1% sales tax increase passed in May 2011 is dedicated entirely to paying debt service.

Standard & Poor's deems Prattville's management practices "standard" under its Financial Management Assessment methodology, indicating that the city maintains adequate policies in some, but not all, key areas. Officials monitor the budget quarterly and make adjustments as needed. By constitutional mandate, the city has a basic formalized debt management policy, which limits debt to 20% of the city's taxable AV. Representatives recently enacted a policy that requires the city to build and maintain a general fund balance of no less than 15% of operational expenditures. As such, management has indicated plans to meet the reserve policy over the next few years. While the city does not have a formal five-year rolling capital improvement plan, it has several policies regarding capital-related needs. The city does not have a formal investment policy or long-term financial plan.

Prattville's overall net debt burden is a moderate at \$1,364 per capita, or 4.1% of market value. Amortization is average, with officials planning to retire 65% of principal over the next 10 years. According to fiscal 2011 audited results, the city's debt service carrying charge was a high 22% of expenditures. Due to the city's limited capital needs, officials do not plan to issue additional debt over the next 18 to 24 months.

The city participates in the Employees' Retirement System of Alabama (ERS) through which it provides pension and other post-employment benefits (OPEBs) to its retired employees. The city is currently required to contribute an actuarially determined rate of 8.53% of the covered payroll. For fiscal 2011, the city contributed \$1.193 million, or an amount equal to 100% of its annual required contribution. The city also provides medical benefits to employees on retirement, and pays all costs in excess of the required employee premiums on a pay-as-you-go basis. The city's net OPEB obligation at the end of fiscal 2011 was \$1.35 million.

Outlook

The stable outlook reflects Standard & Poor's expectation that management will continue to monitor its reserves and continue to implement necessary cost-saving measures to further build up the fund balance. Additionally, we expect the economy and employment base will remain a stabilizing factor for Prattville. If the steps taken by the city do not prove adequate and reserves decline, there could be downward pressure on the rating. Alternatively, a positive general fund balance could result in further upward rating action. However, we do not anticipate a rating change within the two-year horizon of the outlook.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

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