STANDARD & POOR'S

PUBLIC FINANCE

City of Talladega, Alabama

Primary Credit Analysts:
Jennifer Garza
Dallas
(1) 214-871-1422
jennifer_garza@
standardandpoors.com
Secondary Credit Analysts:
Kate Choban
Dallas
(1) 214-871-1420
kate_choban@
standardandpoors.com

RatingsDirect Publication Date
Oct. 13, 2010

Credit Profile

US$19.24 mil Water and Sewer Revenue Warrants, Series 2010, due 09/01/2040

Long Term Rating	A+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Talladega, Ala.'s series 2010 water and sewer revenue bonds. The outlook is stable.

In our opinion, the rating reflects the system's:

- Strong financial position, as evidenced by strong debt service coverage (DSC);
- Very strong liquidity; and
- Moderate monthly water and sewer rates, which provide revenue raising flexibility.

In our view, these credit strengths are partly offset by the system's:

- Declining customer base; and
- Low to adequate wealth and income levels combined with high unemployment.

The city's net water works and sanitary sewer system revenues are pledged to secure the series 2010 bonds. Officials intend to use the series 2010 bond proceeds to fund several rehabilitation improvements to the existing water and sewer system. A portion of bond proceeds will be used to refund a portion of existing debt to revise the bond indenture's restrictions for the surety bond provider and to close the lien on the system's debt.

Talladega, with a population estimate of 15,143, is in Talladega County, about 50 miles southeast of Birmingham, Ala. and 105 miles west of Atlanta, Ga. The system currently serves 6,800 water customers and 3,978 sewer customers but has averaged a 1% decline in customers annually during the past five years. Approximately 50% of the city's water and sewer usage is represented by industrial, governmental, and commercial customers with the remaining demand represented by residential customers. However, the city's top 10 water and sewer customers provide what we view as a very diverse 13% of the utility systems revenues.

Both the city's population and customer decline is attributable to the economic climate and employment base contraction during the past few years.

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 (619). The city also has a tourism component with the presence of Talladega International Superspeedway and the Motorsports Hall of Fame. The superspeedway brings in about 300,000 people per race. The superspeedway has also attracted several new hotels to the area, including a Holiday Inn Express and a Motel 8.

In May 2008, Georgia Pacific, which was a plywood manufacturer and a leading employer in the city, laid off about 430 employees. At this point, Georgia Pacific does not plan to sell the facility. In addition, in 2009 a cabinet manufacturer downsized to 240 employees from 400. However, several of the businesses that have laid off employees have hired personnel since then. Overall, county unemployment increased from a 6.5% average in 2008 to a peak of 14.6% as of January 2010, and has moderated to 11.4% as of August 2010. Despite recent improvements in the employment base, we believe the county's unemployment rate remains high and above both the state and national averages. Per capita income is adequate, but median household effective buying income is what we consider below-average at 71% of the nation.

In our opinion, the system's financial position is strong. The system's willingness to raise water rates during the past five fiscals has produced additional operating revenues and provides strong DSC. Audited fiscal 2008 pledged revenues provided 2.16x annual DSC and the utility system's cash position was a strong 244 days' cash. Audited fiscal 2009 pledged revenues provided for 2.60x DSC and a still strong 199 days' cash on hand; liquidity declined slightly, partly due to an increase in capital expenditures for that year. After adjusting for an 8% rate increase, effective Oct.1, 2009, officials expect to end fiscal 2010 with $1.5 million of net available revenues, providing a strong 3.40x total DSC and 1.81x maximum annual debt service (MADS), which is currently scheduled to occur in 2013. The debt service payment will nearly double from approximately $627,000 in fiscal 2010 to $1.16 million due in fiscal 2011. However, partly due to a 4% increase in water and sewer rates, the fiscal 2011 budgeted operating revenues and expenditures result in pro forma coverage at 2.08x annual DSC and 2.06 MADS.

Subsequent a 30% rate increase in March 2005, a 6% increase in October 2008, an 8% increase in October 2009, and a 4% increase in October 2010, the monthly water and sewer bill for 7,500 gallons consumed is moderate in comparison to the surrounding communities, in our opinion, at $59.88. In addition, the system abides by a rate covenant to generate revenues equal to at least 1.25x average annual debt service coverage. Management currently has no plans to implement additional rate increases for the next two years. Legal provisions are what we consider adequate with an additional bonds test equal to at least 1.25x total MADS. A debt service reserve fund equal to MADS provides additional security. Officials do not currently have additional debt issuance plans but will likely continue renovating and rehabilitating the utility system on a pay-go basis.

Outlook

The stable outlook reflects Standard & Poor's expectation that the system will continue to abide by its rate covenant and maintain good DSC. Officials do not intend to raise water rates, which are currently average, for the next two years. A significant decline in coverage or liquidity could negatively impact the rating.

Related Criteria And Research

USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept.15, 2008