

RatingsDirect®

Summary:

Helena, Alabama; General Obligation

Primary Credit Analyst:

Lauren Levy, Englewood + 1303 721 4956; lauren.levy@spglobal.com

Secondary Contact:

Karolina Norris, Dallas + 1 (972) 367 3341; Karolina.Norris@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Related Research

Summary:

Helena, Alabama; General Obligation

Credit Profile		
US\$26.26 mil GO warrants ser 2024-B due 01/01/2054		
Long Term Rating	AA-/Stable	New
US\$17.51 mil GO warrants ser 2024-A due 01/01/2054		
Long Term Rating	AA-/Stable	New
Helena GO		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to Helena, Ala.'s approximately \$17.5 million series 2024-A general obligation (GO) warrants, and its \$26.3 million series 2024-B GO warrants.
- At the same time, we affirmed our 'AA-' rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The warrants are direct obligations of the city for which its full faith, credit, and taxing power are irrevocably pledged. The property tax pledge in Alabama is limited; the state has statutory tax limitations that include levies for debt service. Based on the application of our criteria, "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we rate Helena's GO warrants on parity with its general creditworthiness due to the fungibility of the city's resources and its ability to manage those resources, supporting our view of the city's overall ability and willingness to pay debt service.

The city's series 2019 school warrants are also secured by a 1% special education sales tax pledge, but we rate the warrants to the stronger GO pledge.

We understand the proceeds from the series 2024 warrants will finance construction of a city hall and a sports and leisure complex.

Credit overview

The rating reflects our view of Helena's growing, primarily residential taxing base, which benefits from direct access to the broad and diverse Birmingham metropolitan statistical area (MSA). The rating is limited by the very weak debt burden, reflecting the city's rapid population growth and significant capital needs. We note that amortization on the city's outstanding debt is slow, so we expect the debt burden to remain elevated during the outlook horizon. Our view of Helena's economic fundamentals has improved due to strong growth in market value per capita metrics, even considering the rapid population growth. We view this natural strengthening of the underlying economic base positively, although the city's highly leveraged debt profile largely offsets improvement in the local economic

fundamentals.

The city maintains historically positive budgetary performance, despite reporting a large operating deficit in fiscal 2023 due to cash funded capital outlay and equipment purchases. The adopted fiscal 2024 operating budget is balanced, and trending toward a surplus at fiscal year-end (Sept. 30) due primarily to sales tax collections outpacing the city's conservative projections. Management expects no material changes to assumptions in the fiscal 2025 budget, which is expected to be balanced. Available reserves remain very strong, both nominally (\$8.4 million) and as a percentage of expenditures (60.8%). The city's goal is to continue building reserves in line with overall budget growth and to maintain levels at 50% of annual operating expenditures. We note that the city's primary revenue source, like most Alabama municipalities, is sales taxes, which are subject to more cyclical volatility than property taxes. However, the broad base of taxation, including online sales and staple items like groceries, support overall revenue stability.

The rating further reflects our view of the city's:

- Rapidly expanding residential suburb of Birmingham, with more than 2,000 new residential lots approved so far in 2024;
- Weak debt profile, reflecting the significant amount of debt being issued and growing service demands and capital needs. We do not view pension and other postemployment benefits (OPEB) obligations as near-term sources of budgetary pressure, as annual contributions currently represent a manageable portion of total expenditures. However, the pension plan (Alabama Employees Retirement System) remains poorly funded, fiscal 2022 contributions fell short of our minimum funding progress (MFP) metric, and the plan's discount rate assumption of 7.45% could lead to cost escalations in the medium term.
- Historically stable financial performance, with surpluses in fiscals 2013-2022, and a capital outlay driven deficit in fiscal 2023. The fiscal 2024 budget is balanced, and trending toward a solid surplus at fiscal year-end (Sept. 30). Reserves have grown substantially in the last 10 years, and are expected to remain exceptionally strong as a percentage of expenditures; and
- Standard financial policies and practices, with a strong institutional framework. Highlights include use of conservative budget assumptions, which typically result in positive budget-to-actual variances, a formal reserve policy to maintain a minimum of 10% of recurring general fund revenue in reserve, with an informal target to maintain 50% of operating expenditures in reserve to provide fiscal stability during economic downturns or cover unexpected expenses. Policies and practices lack long-term financial planning. We note that the city recently adopted a formal investment policy, and a very basic debt management policy, although the debt policy lacks any quantitative guidelines regarding debt issuance. The city also adopted a capital improvement planning (CIP) policy, which calls for development of a three year CIP, although no documents were provided for our review.

Environmental, social, and governance

We view Helena's environmental, social, and governance factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the city will maintain balanced operations and robust reserves as it manages continued population growth and economic expansion, but that the elevated debt burden will remain a credit limitation.

Downside scenario

We could lower the rating if budgetary performance deteriorates on a sustained basis, whether due to high debt service costs, or for any other reason, resulting in maintenance of reserves at levels we no longer view as comparable to those of similarly rated peers.

Upside scenario

All other credit factors remaining stable, we could raise the rating if the debt burden moderates substantially, and our view of the city's formalized financial policies and practices improves.

Helena, Alabama--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	102			
Market value per capita (\$)	132,951			
Population		21,566	19,947	19,231
County unemployment rate(%)	1.9			
Market value (\$000)	2,867,211	2,515,076	2,205,531	
Ten largest taxpayers % of taxable value	6.6			
Adequate budgetary performance				
Operating fund result % of expenditures		(15.7)	30.1	2.2
Total governmental fund result % of expenditures		(12.8)	30.3	2.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		51.0	77.4	50.9
Total available reserves (\$000)		8,397	10,886	6,724
Very strong liquidity				
Total government cash % of governmental fund expenditures		46	69	61
Total government cash % of governmental fund debt service		772	956	902
Adequate management				
Financial Management Assessment	Standard			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.0	7.2	6.7
Net direct debt % of governmental fund revenue	363			
Overall net debt % of market value	2.2			
Direct debt 10-year amortization (%)	37			
Required pension contribution % of governmental fund expenditures	3.7			
OPEB actual contribution % of governmental fund expenditures	--			
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- U.S. Local Governments Credit Brief: Alabama Municipalities, Counties, And School Districts, June 16, 2023

Ratings Detail (As Of August 30, 2024)

Helena GO (AGM)

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.spglobal.com/ratings (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.spglobal.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.