S&P Global
Ratings

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Summary:

Helena, Alabama; General Obligation

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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.