S&P Global
Ratings

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Summary:

Lawrenceville Building Authority, Georgia
Lawrenceville; General Obligation; General Obligation Equivalent Security

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Summary:

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Credit Profile		
US$15.14 mil rev bnds (Lawrenceville) (Lawrenceville Performing Arts Complex Project) ser 2019A due 10/01/2040		
Long Term Rating	AA/Stable	New
US$10.7 mil rev bnds (Lawrenceville) (Lawrenceville Performing Arts Complex Project) ser 2019B due 10/01/2031		
Long Term Rating	AA/Stable	New
Lawrenceville Building Authority, Georgia		
Lawrenceville, Georgia		
Lawrenceville Building Authority (Lawrenceville) rev bnds (Lawrenceville Bldg Auth) (City Of Lawrenceville, Georgia Project) ser 2015		
Long Term Rating	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on the Lawrenceville Building Authority, Ga.'s 2015 revenue bonds outstanding to 'AA' from 'AA-'. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the authority's series 2019A and 2019B revenue bonds (Lawrenceville Performing Arts Complex Project), issued for Lawrenceville. The outlook is stable.

The upgrade reflects the city's improved financial management practices and policies, which have helped the city to improve and maintain strong financial performance and very strong reserves. We note that the general fund is very dependent on utility transfers to maintain balanced operations. In fiscal 2018, utility transfers accounted for about 60% of general fund revenues, which exposes the general fund to the same risks, such as weather-related revenue fluctuations, as the city's enterprise funds. Given this exposure, a deterioration in utility funds performance could pressure the city's GO rating. However, given the utilities' rate-raising flexibility and the city's improved financial practices, in particular the adoption of a long-term financial plan, which treats transfers to the general fund as operating expenses and incorporates annual rate reviews to ensure both operating expenses and debt service requirements are met, we anticipate that the risk is somewhat mitigated. Furthermore, we believe the city's recently completed and upcoming development is likely to spur continued economic expansion in the coming years, which should translate into improved tax revenues and an increased utility customer base.

The series 2019 bonds are secured through an agreement of sale between the authority and the city wherein the city pledges to levy an annual ad valorem tax on all taxable property within its corporate limits, without limitation as to rate or amount, as may be necessary to make the installment payments of purchase price required by the agreement secures the series 2019 bonds. The city's obligation to make such payments is absolute and unconditional so long as the bonds remain outstanding.

The series 2019 bond proceeds will finance the costs of acquiring, constructing, and installing a new performing arts complex, including an approximately 500-seat theater with a fly loft, a cabaret theater, office suites, an educational and rehearsal space as well as renovations to existing facilities associated with the project.

The 'AA' long-term rating reflects our view of the city's unconditional general obligation (GO) pledge, and its following credit factors:

- Adequate economy, with projected per capita effective buying income (EBI) at 65% and market value per capita of $89,145, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018 at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 39% of operating expenditures;
- Very strong liquidity, with total government available cash at 132.9% of total governmental fund expenditures and 52.6x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 2.5% of expenditures and net direct debt that is 153.8% of total governmental fund revenue; and
- Very strong institutional framework score.

Adequate economy

We consider Lawrenceville's economy adequate. The city, with an estimated population of 32,666, is in Gwinnett County in the Atlanta-Sandy Springs-Roswell SA, which we consider to be broad and diverse. The city has a projected per capita EBI of 65.0% of the national level and per capita market value of $89,145. Overall, the city's market value grew by 4.1% over the past year to $2.9 billion in 2019. The county unemployment rate was 3.5% in 2018.

Lawrenceville spans 13.1 square miles, approximately 32 miles northeast of downtown Atlanta, and serves as the county seat for Gwinnett County (the second-largest county in the state by population). The city benefits from its location and participation within the Atlanta MSA, in addition to its direct access to six state routes and the CSX Railroad. The local economy is anchored by the Gwinnett Medical Center, Georgia Gwinnett College (founded in 2006), the local government agencies, and manufacturing/distribution. Leading city public employers include:

- Gwinnett Medical Center (5,300 employees);
- Gwinnett County (5,130 employees);
- Georgia Gwinnett College (930 employees);
- Gwinnett County School District (800 employees); and
- City of Lawrenceville (300 employees).

In our opinion, the presence of Georgia Gwinnett College (more than 12,000 students) and the vast number of the city's governmental employees somewhat suppress income levels. However, we believe the college and medical center assist in drawing nonresidents to the city, spurring overall economic activity.

The city's property values have been on the rise in recent years, demonstrated by a 28% increase in assessed value (AV) over the past five years, driven by a combination of new development and property appreciation. In addition to the performing arts center (funded with the 2019 bond proceeds), the city has several economic development projects on the horizon. Upcoming projects include a new Hilton Tapestry Hotel, which will be downtown near the performing arts center, as well as a downtown parking deck to accommodate the hotel guests and city visitors. In addition, the city has a major mixed-use development downtown, currently in the construction phase, which is expected to be a $200 million investment, including 600 residential units and 15,000 square feet of retail space. Given Lawrenceville's recently completed and ongoing economic development, we anticipate the city will continue to experience expansion in the coming years.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Our improved view of management follows the implementation of formalized long-term financial forecasting, in addition to the adoption of a comprehensive debt management policy.

The city uses a mix of historical trend analysis and zero-based budgeting to formulate the subsequent year's revenue and expenditure assumptions. Lawrenceville's budgetary assumptions have historically been conservative and, as of recently, they include the recurring large-enterprise transfers into the city's general fund. The city council receives monthly budget-to-actual reports, inclusive of enterprise fund performance, and budget amendments can be made to address any variances. The city has recently formulated five year forecasts, updated annually, for the general fund and enterprise funds. Management annually reviews rates in conjunction with the long-term financial plan to ensure enterprise revenues fully cover annual debt service and operating expenses, which include transfers to the general fund. Furthermore, the city maintains a rolling five-year capital improvement plan, inclusive of expected project funding costs and their respective sources.

The city has a formalized investment management policy and city council receives monthly investment holdings and performance reports. Management also maintains a formalized reserve policy to maintain a minimum of three months of operations in reserve. Finally, the city recently adopted a comprehensive formalized debt management policy, which includes quantitative debt issuance and debt burden restrictions.

Strong budgetary performance

Lawrenceville's budgetary performance is strong, in our opinion. The city had operating surpluses of 19.0% of expenditures in the general fund and of 9.8% across all governmental funds in fiscal 2018. Our assessment incorporates the general fund's reliance on enterprise funds and our expectation that budgetary performance will be closer to break-even results in future fiscal years.

In assessing the city's budgetary performance, we have adjusted for recurring net operating transfers, including large-enterprise transfers into the general fund to support operations, in addition to one-time capital expenditures.

Should future enterprise fund transfers not materialize, or if they are insufficient to assist in covering operating expenditures, we would likely consider finances to be structurally imbalanced, which would materially change our assessment of the city's budgetary performance and likely pressure the rating.

In fiscal 2018, the city experienced higher-than-anticipated excise and insurance premium tax revenues, in addition to strong investment earnings. Also, the city realized savings related to position vacancies and lower-than-budgeted capital expenditures. The city's recurring enterprise transfers are structured and budgeted to support the city's general fund operations. Its gas and electric funds are strong performing enterprises, which account for a combined 60.6% of general fund revenues. The electric and gas funds realized operating surpluses of 25% and 102% respectively, before transfers to the general fund. City officials note the current natural gas and electricity rates are lower than surrounding providers, and that the city could raise rates if needed, while still remaining lower or competitive with area providers. Officials monitor gas and electric rates regularly, ensuring revenues are sufficient to cover debt service costs, while continuing to support general fund operations.

The city adopted a balanced budget for fiscal 2019, inclusive of recurring enterprise transfers. As of fiscal 2019, the city has transitioned to a June 30 fiscal year end (from Aug. 31), and have adopted a 10-month budget period. City officials anticipate ending fiscal 2019 with an operating surplus, driven by increased tax revenues, fines and forfeitures, and investment earnings, coupled with overall operational savings and continued position vacancies. Therefore, we anticipate the city will continue to display strong budgetary performance over the next two fiscal years.

Very strong budgetary flexibility

Lawrenceville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 39% of operating expenditures, or $11.7 million.

The city has historically maintained very strong reserves, even with one-time capital incurred in the general fund and recurring transfers to the city's Downtown Development Authority to promote economic development. The city's reserve position has been maintained at very strong levels due to prudent management and a track record of conservative budgeting and strong budgetary performance. Management does not have plans to materially draw on reserves, and expects to continue to build upon its available fund balance. Therefore, we anticipate the city will continue to maintain very strong budgetary flexibility over the next two years.

Very strong liquidity

In our opinion, Lawrenceville's liquidity is very strong, with total government available cash at 132.9% of total governmental fund expenditures and 52.6x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

The city has historically maintained a very strong liquidity position, which is unlikely to deteriorate over the medium term, based on our expectations of continued stable budgetary performance. In our opinion, the city's strong access to external liquidity is demonstrated by its issuance of GO debt over the past 20 years. We do not consider the city's investments as risky, given its current investments are held in the Municipal Electric Authority of Georgia (MEAG) Municipal Competitive Trust and certificates of deposit.

In 2012, the city privately placed $9 million (currently $2.6 million outstanding) of taxable economic development bonds related to its Downtown Development Authority with Hamilton State Bank. Upon review of the closing documents, we do not consider there to be any contingent liquidity risks and accelerated repayment is not expressly a remedy to any event of default.

Weak debt and contingent liability profile

In our view, Lawrenceville's debt and contingent liability profile is weak. Total governmental fund debt service is 2.5% of total governmental fund expenditures, and net direct debt is 153.8% of total governmental fund revenue.

Upon the issuance of the 2019 bonds, the city will have approximately $92.5 million in general obligation debt outstanding, much of which is considered self-supporting from the city's gas fund. The 2019 bonds are anticipated to be self-supporting from the gas fund as well. The city doesn't currently have any additional medium term debt plans. As such, we do not anticipate the city's debt burden deteriorating over the next two years.

We note that as of Aug. 31, 2018, its shares of outstanding Municipal Electric Authority of Georgia (MEAG) and Municipal Gas Authority of Georgia (MGAG) debt were $172 million and $21 million, respectively. Payments to MEAG and MGAG are based on usage, which finance debt service payments. Given the debt is self-liquidating, we do not view this as a contingent liability risk for the city.

Lawrenceville offers two retirement plan options to city employees, the 401(a) and 457 plan, which are defined contribution plans established by the city for all fulltime employees. City council has the authority to establish and amend the plan provisions as well as the contribution for the plan. For the 401 plan, the city matches employee contributions at a 2:1 rate up to a maximum of 10% (and an additional 4% at the age of 45). As of Aug. 31, 2018, 291 employees were participating in the plan with the city's pension contributions totaling $1.3 million. Since the city only sponsors defined-contribution plans, it currently has no pension liabilities outstanding.

The city administers other postemployment benefits (OPEB) through a single-employer defined benefit postemployment health care benefits plan. It subsidizes medical insurance coverage costs incurred by eligible retirees. Contributions are made on a pay-as-you-go basis, and totaled $657,450 in fiscal 2018, and the city's total OPEB liability was $42.8 million. Lawrenceville's actual OPEB contributions totaled 1.5% of total governmental fund expenditures in 2018.

Very strong institutional framework

The institutional framework score for Georgia cities with a population greater than 1,500 or expenditures greater than $300,000 is very strong.

Outlook

The stable outlook reflects our opinion that the city will continue to demonstrate strong financial performance while maintaining very strong reserve and liquidity positions, assisted by its very strong management team. Furthermore, we believe the local economy will continue to grow, driven by the ongoing economic projects, while continuing to benefit from its location within and access to the broad and diverse Atlanta MSA. We do not anticipate changing the rating over the two-year outlook period.

Upside scenario

While we consider it unlikely, we could raise the rating if the city's ongoing development improves economic indicators, particularly income metrics, to levels that we consider in line with those of higher-rated peers.

Downside scenario

We could take a negative rating action if the city's financial performance deteriorates, leading to material draws on the city's reserves. We could also lower the rating if financial performance and reserves in the city's enterprise funds weakened significantly given the general fund's reliance on their support.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments