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**Summary:**

## Cartersville, Georgia Cartersville City School System; School State Program

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## Summary:

# Cartersville, Georgia Cartersville City School System; School State Program

### Credit Profile

US\$53.83 mil GO bnds (Cartersville) ser 2021 due 06/30/2041

<i>Long Term Rating</i>	AA+/Stable	New
<i>Underlying Rating for Credit Program</i>	AA/Stable	New

### Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Cartersville, Ga.'s series 2021 general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AA' underlying rating to the city's series 2021 bonds, reflecting Cartersville's GO credit quality. The outlook is stable.

The city's full-faith-and-credit GO pledge secures the series 2021 bonds with additional credit enhancement provided by the Georgia State Intercept program. The city is issuing this debt for providing of financing construction and equipping of schools to benefit of its school system. We note, while not explicitly pledged, the school district intends to service the debt from education special local option sales tax (E-SPLOST) approved through 2026.

The long-term AA+ rating reflects our assessment of the city's and school system's eligibility for, and participation in, the Georgia State Aid Intercept Program.

The program rating is one notch below our GO rating on Georgia (AAA/Stable), reflecting our view of:

- Strong state support for the program and consistent and well-established state aid funding, which partially mitigates appropriation risk;
- Strong maximum annual debt service (MADS) coverage on all parity debt by state aid payments, currently 4.8x in fiscal 2028; and
- A moderate assessment of timing and administrative risks related to the flow of state aid distributions and debt service payment dates. Notably, maximum semi-annual debt service coverage (DSC) remains strong at 4.2x (October 2028), mitigating this risk.

### Credit overview

The city has the responsibility for funding the educational affairs of the school system, although the school board is a distinct component unit of the city with separate audited financials. As part of our rating analysis on Cartersville, we have included the financial and debt balances of the school board to better reflect the city's overall financial and debt profile.

The 'AA' underlying reflects our view of the city's and school system's very high liquidity and very strong budgetary flexibility profiles that, along with their combined revenue makeup, will continue and support steady performance. Cartersville is in northwest Georgia, roughly 42 miles from Atlanta. The local economy is stable and has experienced modest annual tax base growth, as well as steady enrollment in a per-pupil state funding environment. We note the city's and school system's debt is low on a per capita basis, and as a percentage of market value, and future capital needs are minimal. Cartersville generally funds ongoing capital through its recurring budget, and the school board typically receives voter support for E-SPLOST that funds ongoing and future capital initiatives. We view its pension and other postemployment benefit (OPEB) carrying charges as manageable as a percentage of city and school system total governmental balances in fiscal 2020.

The rating further reflects our view of the following credit factors for the city:

- A strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020, but with a bit of reliance on enterprise transfers and sales taxes which could be volatile;
- Very strong budgetary flexibility, with a combined city and school system available fund balance in fiscal 2020 of 28% of combined operating expenditures;
- Very strong liquidity, with total government available cash at 105.3% of total governmental fund expenditures and 64.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges projected to remain manageable and net direct debt that is 77.0% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 72.4% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the city's environmental, social and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and determined that they are in line with our view of the sector standard.

## **Stable Outlook**

### **Upside scenario**

We could raise the rating if the city's economic metrics improve to levels, we consider comparable to those of higher-rated peers, and if it formalizes stronger management policies in some key areas.

### **Downside scenario**

We could lower the rating if the city or school board experiences financial pressure that leads to budgetary imbalance or material declines in reserves.

## **Credit Opinion**

### **Strong economy**

We consider Cartersville's economy strong. The city, with a population of 21,507, is in Bartow County in the Atlanta-Sandy Springs-Roswell MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 72.5% of the national level, which is below average, and yet a per capita market value of \$126,892, which is strong. Overall, market value was stable over the past year at \$2.7 billion in 2020.

Cartersville is an attractive local community northwest of Atlanta. The city maintains a vibrant downtown and caters to several large employers predominantly in the manufacturing and textile sectors. Shaw Industries is the largest employer with over 2,562 employees. Its main business is to supply carpet, and other specialty products to residential and commercial providers. Toyo Tire North America is the second-largest private employer with over 1,755 employees. These larger employers have been stable through the pandemic with no significant job losses, which is important given that they support smaller businesses down the supply chain within the region.

We believe the city's tax base will likely grow further as ongoing developments continue and the real estate environment remains strong. Since 2017, its estimated full value (AV) has grown 4.7% annually, which has allowed for its millage rates to remain steady. The median home value in the city increased 65% since 2015 and in the past year alone rose 10.4%.

The regional economy has been steady, but the pandemic stymied its momentum. The county unemployment rate was 3.3% in 2019, although it increased significantly because of the stay-at-home orders, peaking at 15.5% in April 2020. It then declined to 3.7% in March 2021, close to pre-pandemic levels. IHS Markit forecasts Bartow County's real gross county product (GCP) fell by 3.01% in calendar 2020, slightly worse than the state's 2.5% decline. The forecast suggests that economic activity will not return to pre-pandemic levels until late 2021, increasing 5.4% in 2021 and 4.3% in 2022. This is largely consistent with S&P Global Economics' U.S. forecasts. (For more information on S&P Global Ratings' economic outlook, please see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect.)

### **Adequate management**

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology. Overall, the city's policies and practices follow state guidelines and best practices, although some policies are not formal. A mayor and city council of seven members govern the city, while the school board has seven members governing the schools. Both the city and school district maintain strong budget monitoring policies and have been prudent in their budgetary revenue and expenditure assumptions. Both review budget-to-actuals monthly and provide monthly reports to each respective board. The city maintains investment and debt management policies. It does not have any formal policies on reserves but manages to set certain targets and thresholds. The school board maintains a fund balance policy limiting available reserves (unassigned, assigned, and committed balances) to no less than 5% of expenditures, with a maximum not to exceed 15% of expenditures.

While the city and school system do not have any formal financial forecasting or capital planning procedures, they do have established initiatives and goals they have adhered to over several years. Management of both city and school

system reviews their capital and financial plans periodically with the assistance of outside consultants and advisors.

### **Adequate budgetary performance**

As previously noted, to reflect Cartersville's overall financial and debt profile, we have included the school system's finances in our performance, reserve, liquidity, and debt calculations on the city. The city and school district had a combined operating surplus of 4.6% of expenditures in the general fund and 2.4% across all governmental funds in fiscal 2020. Our assessment is forward looking and factors in the city's reliance on enterprise revenues, that, while it provides ample budgetary flexibility and liquidity, also introduces budgetary risk for the credit. Nevertheless, we note management has done well managing its budget in the past, and even throughout the pandemic.

Cartersville's 2021 general fund budget totals \$26.3 million which accounts for 39% of the city's and school system's general fund budget combined. The city's performance has been stable, but as noted, it does rely on transfers from its water, sewer, and electric departments for roughly 40% of its general fund revenues. Management highlights that its enterprise user fees and charges compare favorably against those of its competitors, which gives it sufficient rate-setting flexibility to continue and provide support to general fund operations without it weakening the enterprise operations. While performance in the enterprise funds has been robust, the general fund reliance on these revenues poses some budget risk in the future. Property taxes constitute 16% of budgeted revenues for the city while occupational taxes and permits make up 30%. Sales and other taxes account for 18%. The city is not reliant on state and federal grants.

The 2021 school budget totals \$40.8 million with state aid making up the largest share of revenues at 59%. Property and sales taxes provide the second-largest share.

We note both the city and school system have operated well throughout the pandemic, and we anticipate performance should remain stable over our outlook period. Throughout the pandemic, Cartersville and its schools implemented several cost-saving initiatives and were conservative in budgeting, revising revenue estimates downward for fiscal 2021 and reducing spending in like amounts.

Therefore, and thanks to better-than-anticipated revenue performance and other budgetary modifications, management is not expecting to use reserves in the 2021 budget for operational purposes. Currently, budgetary results are better than anticipated for both entities, and with level funding of state aid in fiscal year 2022, we believe continued stable operating performance is likely. Moreover, the city is eligible to receive American Rescue Plan funds, and the school district is also benefiting from Elementary and Secondary School Emergency Relief (ESSER) stimulus funds.

### **Very strong budgetary flexibility**

Cartersville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 28% of operating expenditures, or \$19.3 million.

Both the city and school system maintain strong budgetary flexibility. In 2020, the city closed with an unassigned general fund balance of \$2.8 million, equal to 10.5% of its budget. The school district closed with a balance of \$8.3 million, or 19% of its budget.

Given the expectation for steady operating performance heading into 2022, we don't believe there will be any reserve balance deterioration that would weaken our assessment.

### **Very strong liquidity**

In our opinion, Cartersville's liquidity is very strong, with total government available cash at 105.3% of total governmental fund expenditures and 64.7x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

We believe liquidity will likely remain very strong because there is no expectation of significantly deteriorated cash balances. The city also maintains strong access to external liquidity by frequently issuing debt for capital projects.

### **Strong debt and contingent liability profile**

In our view, Cartersville's debt and contingent liability profile is very strong. Total governmental fund debt service is 1.6% of total governmental fund expenditures, and net direct debt is 77.0% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, and approximately 72.4% of the direct debt is payable within 10 years, which are, in our view, positive credit factors.

Following this issuance, the city will have \$127 million of debt outstanding of which \$64.2 million is payable from the enterprise accounts. Neither the city nor the school system have any additional debt planned, so the overall debt profile should remain steady.

Pension and other postemployment benefits:

- We view pension and OPEB liabilities as a source of credit pressure for Cartersville due to its sizable unfunded liabilities but consider costs on a combined basis manageable and affordable given the strength of the city's revenue base and underlying assumptions.
- The city funds OPEBs generally on a pay-as-you-go basis and maintains an unfunded liability of \$23.4 million.

As of June 30, 2020, the city participates in:

- City of Cartersville Pension Plan, which is 58.8% funded and has a net pension liability of \$35.8 million.

The school system participated in the following plans as of June 30, 2020:

- Teacher Retirement System of Georgia (TRS), a cost-sharing, multiple-employer, defined-benefit pension plan administered by the state, with a funded ratio of 77.0% and a NPL of \$46.1 million.
- Georgia School Personnel Postemployment Health Benefit Fund, a cost-sharing, multiple-employer, defined-benefit OPEB health care plan, which is paid on a pay-as-you-go basis, with a net OPEB liability of \$28.2 million.

Cartersville's and the school systems combined required pension and actual OPEB contributions totaled 11.2% of combined total government expenditures. Of that amount, 5.0% represented the amount paid by the city, and 6.2% was the amount associated with the schools.

### **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.

## **Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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