

RatingsDirect®

Summary:

Southaven, Mississippi; General Obligation; Miscellaneous Tax; Note

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Summary:

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Credit Profile

US\$2.985 mil GO rfdg bnds ser 2012A due 12/01/2024

Long Term Rating AA-/Stable New

US\$2.75 mil GO wtr & swr rfdg bnds ser 2012 due 12/01/2023

Long Term Rating AA-/Stable New

Southaven GO

Long Term Rating AA-/Stable Affirmed

Mississippi Dev Bank, Mississippi

Southaven, Mississippi

Mississippi Dev Bank (Southaven, Mississippi Wtr & Swr Sys Proj)

Unenhanced Rating A+(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Southaven, Miss.' series 2012 general obligation (GO) water and sewer refunding bonds, and series 2012A GO refunding bonds. In addition, Standard & Poor's affirmed its 'AA-' long-term and underlying rating (SPUR) on the city's existing GO debt, and its 'A+' long-term rating and SPUR on the city's series 2006 and series 2008 special obligation bonds outstanding, some of which were issued by the Mississippi Development Bank. The series 2006 and 2008 special obligation bonds are secured by the city's general fund revenue pledge and are rated one notch below the city's 'AA-/Stable' general obligation (GO) debt rating. The outlook on all ratings is stable.

The ratings reflect our view of the city's:

- Continued rapid growth and participation in the diverse Memphis, Tenn., economy and labor market;
- Good wealth and income levels; and
- Historically strong financial position.

Offsetting these strengths, in our view, is the city's moderate overall debt burden as a percent of market value.

The bonds are secured by the pledge of an ad valorem tax to be levied upon all taxable property within the city.

Officials will use the bond proceeds to refund a portion of the city's outstanding debt for savings.

Southaven, with a population of 48,982, is the largest city in Desoto County ('AA' GO debt rating) and is located about five miles south of Memphis. The city's access to the diverse and expanding Memphis economy has contributed to its rapid growth. Assessed value (AV) increased 38% since fiscal 2005 to \$520 million in fiscal 2013 and an estimated \$4.3 billion in market value. According to management, housing development has picked up significantly during the past

couple of years, and the housing market remains strong with new homes typically range from \$175,000 to \$200,000 in price. Accordingly, rapid single-family residential growth has fueled retail and commercial development.

The property tax base is diverse, in our opinion, with the 10 leading taxpayers accounting for 15.2% of total AV. We believe that the city's median household income is good, at 106% of the national average. Estimated market value is, in our opinion, strong at \$88,535 per capita, up from \$70,568 per capita in 2004. Many residents commute to employment in Memphis or surrounding Shelby County for employment. Desoto County's economy, however, has steadily expanded into the services and manufacturing sectors. Leading employers in Southaven include:

- Desoto County School District (3,000 employees);
- Baptist Memorial Hospital (1,627);
- Dizzy Dean Baseball, Inc. (1,000), a sports and recreation club;
- Wal-Mart (500); and
- District Transportation & Security (500), a transportation company.

In our opinion, Southaven's financial position is strong. The city closed fiscal 2011 (Sept. 30) with an operating surplus of about \$1.7 million due to conservative budgeting. This brought the general fund balance to \$6.2 million or 17.6% of operating expenditures, which we consider very strong; of this amount, the unassigned general fund balance totaled \$4.4 million or 12.5% of expenditures, which we consider strong. For fiscal 2012, management is projecting to end with an additional operating surplus of roughly \$1 million due to conservative budgeting. Officials plan to continue to budget conservatively, with the goal of maintaining at least 12% to 15% of general fund operations in reserves. Officials anticipate adopting a balanced budget for fiscal 2013 with no use of fund balance. The city's tax rate, at 43.73 cents per \$1,000 of AV, remains unchanged since 2008.

Standard & Poor's deems Southaven's management practices "standard" under its financial management assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. The city has formal written financial management policies for investments and capital improvements to the water and sewer system. The investment policy follows investment guidelines outlined by state statutes and calls for informal monthly updates to the city council. Key practices also include management's use of extensive planning and analysis to devise revenue and expenditure assumptions based on historical trend analysis and proven willingness to make intra-year corrections to improve structural budget gaps due to a formalized budget contingency plan. In addition, the city targets to maintain at least 12% of operations in reserve.

The city contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. For September 2011, the city contributed 100% of its \$2 million annual required contribution, which totaled approximately 4% of total governmental expenditures. The city does not offer any other post-employment benefits (OPEB) and therefore has no OPEB liability.

We believe that overall net debt levels are moderate at \$2,948 per capita and moderately high at 3.3% of market value. Debt amortization is rapid, with roughly 72% of the principal due to be retired in 10 years and 100% of the principal due to be retired in 20 years. Carrying charges are elevated, at 23% of fiscal 2011 expenditures, partly due to the city's faster-than-average principal amortization. Officials are considering the possibility of issuing an additional \$2.8 million

in the next 12 to 18 months for the construction of a new fire station.

Outlook

The stable outlook reflects Southaven's history of economic stability and tax base growth. The outlook also reflects our expectation that the city's recent financial performance and structural budget stability are sustainable and that the city will maintain at least strong reserves. While we do not anticipate the rating changing within the two-year outlook horizon, should reserves decline there could be downward pressure on the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006

Ratings Detail (As Of October 1, 2012)		
Southaven GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Southaven GO Note		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Southaven GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Mississippi Dev Bank, Mississippi		
Southaven, Mississippi		
Mississippi Dev Bank (Southaven)		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

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