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## Summary:

# Huntington Municipal Development Authority, West Virginia Huntington; Appropriations

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| Huntington, West Virginia | | |
| **Huntington Mun Dev Auth (Huntington) pub facs** | | |
| *Long Term Rating* | A/Stable | Upgraded |

## Rationale

Standard & Poor's Ratings Services raised by two notches, to 'A' from 'BBB+' its long-term rating on Huntington Municipal Development Authority, W.V.'s series 2010A refunding revenue bonds and series 2010B refunding and improvement revenue bonds, issued for the city of Huntington. The upgrade is based on Standard & Poor's local GO criteria released Sept. 12, 2013. The outlook is stable.

The revenue bonds represent an interest in lease payments made by Huntington, as lessee, to the Huntington Municipal Development Authority, as lessor.

The rating reflects our assessment of the following factors:

- Adequate economy, which benefits from participating in the broad and diverse economic base of the Huntington-Ashland metropolitan statistical area (MSA) and the stabilizing presence of Marshall University;
- Adequate budgetary flexibility;
- Strong liquidity providing strong cash levels to cover both debt service and expenditures.
- Strong budgetary performance;
- Weak debt and contingent liabilities position, with major budgetary pressures from pension costs; and
- Adequate management conditions with standard policies.

### Adequate economy

We consider the city's economy to be adequate when combining projected per capita income at 70% of the national level and market value per capita at $51,600. The city is part of the broad and diverse Huntington-Ashland MSA. Assessed value for fiscal 2015 increased slightly to $1.52 billion. The city is home to Marshall University, which we view as a stabilizing institution.

### Adequate budgetary flexibility

We believe the city's budgetary flexibility is adequate given its available reserves for fiscal 2013 totaled $5.1 million, or 11.5% of expenditures adjusted for one-time expenditures and transfers for debt service. This represents a marked improvement from fiscal 2011 when the balance was negative, though we believe the city still has a limited capacity to cut spending due to pension pressure. Management expects the fiscal 2014 general fund balance to decline $800,000 due to one-time capital projects, and reports the 2015 budget will be structurally balanced.

### Strong liquidity

The city has a strong liquidity position, with total government available cash at 12.1% of total governmental fund expenditures and 2,146% of governmental funds debt service. Additionally, we believe the city has strong access to external liquidity. We believe there is nonremote contingent liability risk given the existence of a line of credit with permissive events of default that, if triggered, could result in an immediate repayment. However, we note the amount currently drawn on the line represents only 1.4% of general fund revenue.

### Strong budgetary performance

We view the city's budgetary performance as strong, with the general fund surplus at 1.9% of expenditures and total governmental fund surplus at 4.5% of expenditures. The largest revenue source in fiscal 2013 was business and occupation tax receipts (30%) followed by charges for services (25%). The second category consists of a municipal service fee as well as city service fee.

### Weak debt and contingent liability profile

The city's debt and contingent liabilities position is weak in our opinion. Total governmental fund debt service is 0.6% of total governmental funds expenditures and net direct debt is 63.3% of total governmental funds revenue. Amortization is rapid, with nearly 70% of principal due to be retired over the next 10 years. We do not anticipate any medium-term debt issuances.

The city participates in the West Virginia Public Employees' Retirement System, and all city employees hired after Jan. 1, 2010, are in this state-managed plan. In addition, Huntington maintains a Policemen's Pension and Relief Fund and a Firemen's Pension and Relief Fund. The city's fiscal 2013 contribution to the former was $5.3 million (122% of the annual pension cost) and the unfunded pension benefit obligation was $63.1 million (or a 23% funded ratio). The city's fiscal 2013 contribution to the latter was $6.6 million (125% of the annual pension cost) and the unfunded pension benefit obligation was $88.6 million (or a 11% funded ratio). The city shifted to a 40-year amortization schedule for its pension liabilities, from 30 years, in fiscal 2010 due to a change in the state law to provide budgetary relief. The city also has an unfunded actuarial accrued liability of about $124 million for other postemployment benefits (OPEB). Combined, the city's pension and OPEB expenditures in fiscal 2013 represented what we consider a high 25% of total governmental expenditures.

### Adequate management conditions

We view the city's management conditions as adequate with standard financial practices.

### Strong Institutional Framework

We consider the Institutional Framework score for West Virginia cities strong.

## Outlook

The stable outlook reflects our view of the city's anticipated maintenance of strong reserves despite what we view as significant pressure stemming from pension and OPEB-related expenditures. Should performance weaken, resulting in diminished liquidity and flexibility, the rating could be lowered. Upward rating movement would likely follow an improved funded status of the city's pension funds. We do not expect to change the rating in the outlook's two-year horizon.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

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