

RatingsDirect®

Summary:

Johns Creek, Georgia; General Obligation

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US\$40.0 mil GO Bnds ser 2017 due 04/01/2047

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' rating, and stable outlook, to the city of Johns Creek, Ga.'s series 2017 general obligation (GO) bonds.

The city's full-faith-and-credit pledge, including an unlimited ad valorem tax levy on taxable property, secures the GO bonds. The bonds will be used to fund the construction and improvement of various park projects city wide.

The city's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," (published Nov. 19, 2013, on RatingsDirect), the city has a predominately locally derived revenue source, with 39% of governmental activity revenue derived from sales taxes, and 32% from property taxes, with independent taxing authority and independent treasury management from the federal government.

The 'AAA' GO rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 42.7% of total governmental fund expenditures and 21.8x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 2% of expenditures and net direct debt that is 78.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

Very strong economy

We consider Johns Creek's economy very strong. The city, with an estimated population of 83,335, is located in Fulton County in the Atlanta-Sandy Springs-Roswell MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 181% of the national level and per capita market value of \$121,885. Overall, the city's market value grew by 1.8% over the past year to \$10.2 billion in 2017. The county unemployment

rate was 5.8% in 2015.

Johns Creek is a wealthy suburb located approximately 27 miles north of downtown Atlanta. The city is predominantly residential, supported by its very diverse tax base, composed of high-end homes and gated communities. The median home price in Johns Creek is estimated at \$331,760. However, commercial and corporate employment also supports growth and stability in the city's local economy. Major employers include:

- Macy's Systems and Technology (1,321 employees),
- State Farm Insurance Co. (1,200), and
- Alcon Inc. (1,096).

However, management indicated the majority of working residents commute into the broad and diverse Atlanta-Sandy Springs-Roswell MSA. We understand the city is approximately 95% built out, with the majority of remaining available land designated for commercial construction. Residential and commercial improvements have supported tax base growth in recent years. We believe future improvements and commercial expansions will continue to generate tax base growth providing stability to the very strong local economy.

Very strong management

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

Highlights of the city's practices include its:

- Revenue and expenditure assumptions based, in part, on three years of historical trends and estimates of the city's needs;
- Monthly budget reports to the city council on a year-to-date comparison of the budget and amendments performed as needed;
- Formal investment policy with monthly reports on investment performance and holdings to the council;
- Formal long-term financial plan and a 10-year forecast of revenue and expenditures across operating budgets in the general fund;
- Rolling five-year capital plan that identifies funding sources and uses;
- Formal debt management policy with adequate conditions for issuing long-term debt; and
- Formal minimum general fund balance policy of maintaining 25% of operating expenditures in available fund balance.

Strong budgetary performance

Johns Creek's budgetary performance is strong in our opinion. The city had operating surpluses of 9.2% of expenditures in the general fund and of 10.7% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2016 results in the near term.

After adjusting for large one-time expenditures, management's comprehensive and conservative budgeting practices resulted in very strong operating surpluses in the general fund and total governmental funds in each of the past three audited years. The city's fiscal 2016 actual general fund operations outperformed budgeted expectations by \$6.5 million. Sales tax is the city's leading revenue source followed by property taxes, accounting for 39% and 32% of

general fund revenue, respectively. Sales tax has grown 7.4% annually during the past three audited years. We believe the city's budgeted expectations in fiscal 2017 could lead to structural deterioration from the city's previously very strong performance in 2016. However, given the city's conservative budgetary practices in addition to stable growth in local revenues, we expect the city to maintain strong budgetary performance during the current and subsequent fiscal years.

Very strong budgetary flexibility

Johns Creek's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 50% of operating expenditures, or \$20.3 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The city has a history of maintaining very strong available general fund reserves. We understand the city has been spending down available reserves for large one-time capital projects over the past three years. Based on its 2017 projections, we do not expect the budgetary flexibility score to decrease below what we consider a very strong level. Flexibility is additionally supported by the city's formal fund balance policy equal to a minimum of 25% of operating expenses.

Very strong liquidity

In our opinion, Johns Creek's liquidity is very strong, with total government available cash at 42.7% of total governmental fund expenditures and 21.8x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Johns Creek has demonstrated strong access to capital markets with several debt issues over the past 20 years. The city historically had what we consider very strong cash balances. Because the city has no significant plans to spend down reserves, we do not believe its cash position will likely weaken materially. The city's investments comply with state statutes. In addition, we understand that the city does not have any contingent liabilities or privately placed debt that could materially impact liquidity.

Strong debt and contingent liability profile

In our view, Johns Creek's debt and contingent liability profile is strong. Total governmental fund debt service is 2% of total governmental fund expenditures, and net direct debt is 78.7% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, which is in our view a positive credit factor. We understand the city has no plans to issue additional debt during the next two years.

The city made its full annual required pension contribution in 2016. Unlike most municipalities, Johns Creek does not offer pension or other post-employment benefits to employees.

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 Johns Creek will likely continue to benefit from its participation in the Atlanta-Sandy Springs-Roswell MSA, allowing for continued tax-base growth and diversification. The outlook also reflects our expectation that the city will likely maintain its very strong budgetary flexibility and strong budgetary performance. We do not expect to change the rating during the two-year outlook period. Finally, the outlook also reflects our expectation that the city's debt and contingent liabilities profile will likely remain strong and that the city will prudently issue additional debt in a manner that will not significantly increase overall budgetary pressure related to debt service carrying charges. We could lower the rating if the city were to experience multiyear financial deterioration, resulting in a material reduction of available reserves, coupled with an elevated debt profile, and weakening economic characteristics.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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