

RatingsDirect®

Summary:

Fort Smith, Arkansas; Sales Tax

Primary Credit Analyst:

Emmanuelle Lawrence, Dallas (1) 214-871-1473; emmanuelle.lawrence@standardandpoors.com

Secondary Contact:

Omar M Tabani, Dallas (1) 214-871-1472; omar.tabani@standardandpoors.com

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Summary:

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Credit Profile

US\$35.325 mil sales and use tax bonds ser 2014 dtd 02/01/2014 due 05/01/2029

<i>Long Term Rating</i>	AA/Stable	New
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Fort Smith sales tax

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
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<i>Long Term Rating</i>	AA/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Fort Smith, Ark.'s series 2014 sales and use tax bonds. At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the city's outstanding sales and use tax bonds. The outlook on all issues is stable.

The rating reflects our opinion of:

- The closed lien after authorized amounts have been issued, and mandatory use of surplus revenues to pay down outstanding maturities in inverse chronological order;
- The city's position as a regional retail and service center, with limited competition; and
- The relatively stable sales tax collections despite a national economic slowdown.

The city is using the bond proceeds to finance several utility infrastructure improvements, including new pump stations and treatment plant upgrades. The bonds are secured by a revenue pledge generated by a three-quarters of one-cent (0.75%) sales and use tax levied by the city. Voters approved this tax via referendum in March 2012. Liquidity for debt service is provided by a cash-funded debt service reserve equaling 5% of the principal on the 2014 bonds. Although the bonds are on parity with the city's previously issued 2012 sales and use tax refunding and improvement bonds, the 2014 bonds have a separate debt service reserve. The bonds contain a mandatory early redemption feature stating that any pledged revenue not used for that year's debt service payment must be used to pay down outstanding maturities on the bonds in inverse chronological order. Moreover, legal provisions also include an additional bonds test of 1.25x maximum annual debt service (MADS) coverage that must be met for the 2014 bonds' issuance.

With a population of roughly 86,209, Fort Smith is located in the rapidly growing northwest Arkansas metropolitan statistical area, and serves as the hub of a six-county trade region. The industrial sector and commercial trade drive the city's economy. Median household effective buying income levels are adequate, albeit below average, at 78% of the national level. Reflecting depth in the city's sales tax base, per capita retail sales are strong, at 174% of the national level.

Based on year-to-date financial results provided by management, collections of the 0.75% sales tax for fiscal 2013

provide 1.3x MADS coverage, scheduled to occur in 2024. Annual debt service coverage is 1.42x. Compared with previous years, pledged revenues are down due to the recently changed sales-and-use tax levy. As mentioned above, voters elected to replace the former 1% sales-and-use tax levy for the 0.75% levy in March 2012. Starting in December 2012, the city began receiving the 0.75% sales-and-use tax revenue for debt service. As such, prior to December 2012, the 1% sales-and-use tax secured the city's parity debt, which provided additional revenue for bond obligations. Officials intend to use the remaining 0.25% not dedicated to paying down the 2012 and 2014 bonds to fund parks, recreation, and fire department-related services and projects through pay-as-you-go financing. Despite the lower sales tax percentage, we still view MADS coverage as good, particularly when coupled with no outstanding parity debt issuance authorizations.

As mentioned above, voters approved the current issuance during a special election in March 2012. By law, the city cannot issue additional debt without voter authorization. We understand officials are not planning to approach voters again for the foreseeable future.

Outlook

The stable outlook reflects our view of the city's role as a regional economic center. This should allow for relative stability in future pledge revenues. Given the closed lien, we do not expect to lower the rating during the two-year outlook horizon. However, should revenues decline in a manner that substantially reduces MADS coverage, we could lower the rating. Conversely, if revenues and coverage increase substantially, we could raise the rating.

Related Criteria And Research

Related Criteria

USPF Criteria: Special Tax Bonds, June 13, 2007

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