Research Update:

Alcoa, TN Series 2025 GO Bonds Assigned 'AA-' Rating; Existing Debt Affirmed; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA-' long-term rating to the City of Alcoa, Tenn.'s $9.95 million series 2025 general obligation (GO) bonds.
- We also affirmed our 'AA-' long-term ratings on the existing bonds.
- The outlook is stable.

Rationale

Security

The GO bonds are secured by the city's full faith and credit pledge, payable from Alcoa's levy on an unlimited ad valorem tax on all taxable property within the city. We understand that bond proceeds will be used to support various infrastructure projects, including projects related to the new Costco Wholesale construction.

Credit highlights

The 'AA-' rating reflects our view of the city's expanding tax base, benefitting from proximity to other growing cities in east Tennessee, and a very strong financial profile, which is expected to be maintained even if revenue growth slows. The city's debt burden is very high, but this is mitigated by the bonds being supported by three strong utility systems, and a substantial portion that is self-supporting.

Alcoa (population of approximately 13,588, although management estimates close to 15,000 currently) is a healthy and expanding economy within a growing municipality. A significant population increase of 50% since 2010 has driven diversification, shifting the economy away from historical reliance on agriculture, and industrial corporation Arconic (formerly known as Alcoa Inc.). Although sales taxes constitute a notable portion of general fund revenue (approximately 37%), the city's overall financial profile remains robust, supported by favorable economic projections, sustained population growth, and proactive budget management.

Alcoa's economy has attracted residents and businesses due to its desirable nature-based recreation opportunities (proximity to the Smoky Mountains), perceived safety, and comparatively favorable cost of living (housing costs 28% below national averages). The tax base is concentrated--with the top-10 payers representing 30% of property tax revenue and Arconic contributing approximately 17% of assessed value--but benefits from diversification within the broader Blount County regional economy. Current development activity, including the construction of approximately 2,000 residential units and a Costco Wholesale club, indicates ongoing investment and supports projected growth.

Recent financial performance has been strong, driven by the expanding tax base, increasing sales tax collections, higher property tax rates instituted in 2020 (31% increase), and conservative fiscal practices. The city built up substantial reserves that we believe will remain very strong for the foreseeable future.

A significant debt burden (over $11,000 per capita) currently constrains the rating, particularly given planned investments, including a $40 million debt contribution to a $90 million sewer infrastructure project in partnership with the city of Maryville. Approximately $40 million of Alcoa's debt is held directly through agreements with Regions Bank and BB&T Bank, representing about 26% of total debt. These agreements include cross-default and acceleration provisions, which are considered manageable given the city's liquidity. While high on a per capita basis, the city's debt profile is partially secured and supported by revenue from its three utilities (electric, landfill, and water and sewer). Utilities serve regional customers and their customer base is far larger than the city's population.

Additional factors reflected in the 'AA-' rating include our view of the following:

- The city's population has almost doubled in the past 25 years but is still relatively small at 15,000 and will likely keep increasing. County incomes and economic output are below national levels, but locally, income generation comes from new residents moving into the area that tend to have wealth. Commercial activity is also gaining traction to meet residential demands. The city's strong growth prospects are a positive factor in our analysis.
- Officials report that while the city's amended fiscal 2025 budget (year-end June 30) called for a $197,000 draw on reserves, actual revenue collections were above budgeted levels and that it expects to add to the reserves again in the year. The city's original fiscal 2026 budget calls for a $1.67 million draw, however, the city has historically demonstrated conservative expenditure and revenue forecasts that contribute to better-than-expected budgetary performance.
- Financial management processes are not highly formalized or robust, but day-to-day management has proven effective. The city has standard budgeting practices using historical trends and state sources where applicable, and management presents formal reports on revenue to the council monthly, and expenditures quarterly. There is no formal long-term financial forecasting or capital improvement plan. The city has debt and investment policies and targets to maintain 30% in reserves. The city has taken steps to address cyber risk.
- Utility revenue has historically been sufficient to service a portion of the debt ($52 million). Total debt includes approximately $37 million directly placed with Truist Bank through a loan agreement with the Public Building Authority of Blount County ,and approximately $5 million with a direct pay letter of credit with Truist Bank through a loan agreement with the Industrial Development Board of Blount County, which together represent about 28% of Alcoa's total debt. Both loans include an acceleration provision in the event of default, where the total principal and interest would come due with a cure period of 180 days following the event date.

The city has enough liquidity to support an acceleration event, and the cure period is long enough to also allow it to address an acceleration event by accessing the capital markets. The variable rate on the Trust Bank loan (E-5-B) is the SIFMA Index yield plus a credit spread. Officials always take into account the interest rate exposure when budgeting.

- Pension and retiree health care liabilities are minimal, and combined fixed costs are low as well.
- For more information on our institutional framework assessment for Tennessee municipalities, see: "Institutional Framework Assessment: Tennessee Local Governments," Sept. 11, 2024.

Environmental, social, and governance

We view social and governance factors as neutral within our analysis. The city's environmental risk is elevated--a large aluminum smelting plant is located within the city limits and accounts for 17% of the tax base. Although the plant could raise waste and pollution concerns, it appears that air quality in Alcoa is similar to U.S. average levels. This risk could accelerate if the situation deters demographic growth.

Outlook

The stable outlook reflects our expectation that the city's residential and commercial bases will continue to bring in more revenue, and that very strong available reserves will provide ample flexibility.

Downside scenario

A material reduction in Alcoa's reserves, or ongoing declines in budgetary performance, could result in a downgrade. In addition, should increased debt from future issuances further weaken the city's debt profile to levels no longer comparable with those of peers at the current rating level, we could lower the rating.

Upside scenario

Diversification in the economic profile and moderation of the debt burden on a per capita basis, coupled with consistently positive financial operations, could lead to a higher rating.

Alcoa, Tennessee--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.94
Economy	5.5
Financial performance	2
Reserves and liquidity	1
Management	2.70
Debt and liabilities	3.50

Alcoa, Tennessee--key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	75	--	75	75

Alcoa, Tennessee--key credit metrics

	Most recent	2024	2023	2022
County PCPI % of U.S.	84	--	84	83
Market value ($000s)	2,754,048	2,653,360	2,305,682	2,223,739
Market value per capita ($)	202,682	195,272	189,316	200,391
Top 10 taxpayers % of taxable value	27.7	27.7	32.6	32.9
County unemployment rate (%)	3.0	3.0	2.9	3.1
Local median household EBI % of U.S.	82	82	74	76
Local per capita EBI % of U.S.	83	83	83	83
Local population	13,588	13,588	12,179	11,097
Financial performance				
Operating fund revenues ($000s)	--	35,269	34,697	30,081
Operating fund expenditures ($000s)	--	24,798	23,750	23,810
Net transfers and other adjustments ($000s)	--	(7,658)	(5,469)	(4,292)
Operating result ($000s)	--	2,813	5,478	1,979
Operating result % of revenues	--	8.0	15.8	6.6
Operating result three-year average %	--	10.1	12.6	10.1
Reserves and liquidity				
Available reserves % of operating revenues	--	65.3	58.2	49.0
Available reserves ($000s)	--	23,017	20,204	14,725
Debt and liabilities				
Debt service cost % of revenues	--	9.2	8.7	12.1
Net direct debt per capita ($)	11,216	10,717	12,628	14,503
Net direct debt ($000s)	152,408	145,616	153,791	160,943
Direct debt 10-year amortization (%)	50	55	--	--
Pension and OPEB cost % of revenues	--	7.0	8.0	8.0
NPLs per capita ($)	--	1,146	1,278	1,143
Combined NPLs ($000s)	--	15,568	15,568	12,687

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List	
New Issue Ratings	
US$9.995 mil GO bnds ser 2025 due 06/01/2055	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Local Government	
Alcoa, TN Unlimited Tax General Obligation	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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