

RatingsDirect®

Summary:

Lawton, Oklahoma; General Obligation

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Summary:

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Credit Profile

US\$3.0 mil GO bonds ser 2017 dtd 06/01/2017 due 06/01/2019

Long Term Rating	AA-/Stable	New
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Lawton GO

Long Term Rating	AA-/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Lawton, Okla.'s series 2017 general obligation (GO) bonds. At the same time, we affirmed our 'AA-' long-term rating on the city's GO debt outstanding. The outlook is stable.

The bonds are secured by an unlimited ad valorem tax, levied on all taxable property within the city. Lawton's series 2005 and 2008 limited tax GO bonds are secured by a limited ad valorem tax, which we rate as equivalent to an unlimited-tax pledge for GO bonds rated 'A-' and higher. Bond proceeds will be used to fund capital improvements in the city.

The 'AA-' rating reflects our assessment of the city's:

- Weak economy, with market value per capita of \$41,177 and projected per capita effective buying income (EBI) at 77.6%, but that benefits from a local stabilizing institutional influence;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.0% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 11.3% of expenditures and net direct debt that is 92.4% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 98.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Lawton's economy weak. The city, with an estimated population of 96,053, is the county seat of Comanche County and is 87 miles southwest of Oklahoma City. It benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita EBI of 77.6% of the national level and per capita market value of \$41,177. Overall, market value fell by 3.2% over the past year to \$4.0 billion in 2017. The county unemployment rate was 4.2% in 2015.

The local economy is heavily influenced by the presence of Fort Sill, a large military facility directly north of the city

staffed by approximately 27,000 military and civilian personnel, which accounts for roughly 30% of the population. The base is home to multiple artillery and air defense units and associated training programs.

Local officials report that the base has been a net beneficiary of recent reductions in military staffing due to consolidation from other facilities. In recent years, the base has added over 10,000 additional personnel as a result. We view the base as a stabilizing institution for the city and a major generator of the economic activity in the area. Furthermore, the city anticipates the potential addition of 6,000 more personnel later this year.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key practices include the use of five years of historical data and demographic projections when making revenue and expenditure assumptions. Budget-to-actual comparisons are reported monthly to elected officials, with amendments made as needed. Long-range financial projections are generated annually. Formally adopted investment management policies require quarterly reporting of holdings and performance and prohibit aggressive investments. A formally adopted 5% reserve policy is adhered to as a hedge against unforeseen disasters or liquidity pressures. Lawton lacks a regularly maintained capital improvement plan and has not adopted internal policies related to debt management.

Adequate budgetary performance

Lawton's budgetary performance is adequate, in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures, but a slight deficit result across all governmental funds of negative 1.4% in fiscal 2015.

The city ended the year with a slight surplus in the general fund due to conservative budgeting efforts and increased sales tax collections. The expected increase in the military and civilian employee population at Fort Sill throughout the remainder of this year will bode well for sales tax collections during the coming years as well. As part of our analysis of the city's budgetary performance, we have adjusted our general fund and total governmental fund expenditures to account to account for \$1.18 million in pension contribution costs that the city did not pay in 2015. If the city continues to underfund its required contributions to the city retirement plan, we believe budgetary performance could be pressured in the coming years, which could result in a budgetary performance score we consider weak or very weak.

For fiscal 2016, unaudited results indicate another surplus in the general fund, increasing the city's available reserves to \$13.1 million, or 23% of unadjusted operating expenditures. Once again, revenues exceeded the budget while expenditures came in under budget. For fiscal 2017, the city expects to end with break-even operations in the general fund. In our opinion, budgetary performance will likely remain at least adequate in the future following the expanding presence of Fort Sill, management's conservative budgeting of expenditures, and recent modifications to the city's pension offerings to employees.

Very strong budgetary flexibility

Lawton's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 16% of operating expenditures, or \$12.3 million.

The city's general fund available fund balance increased by roughly \$460,000 in fiscal 2015 following strong revenue collections versus the budget in combination with lower-than-budgeted expenditures.

For fiscal 2016, unaudited results indicate another surplus in the general fund, increasing the city's available reserves to \$13.1 million, or 23% of operating expenditures prior to any data adjustments to operating expenditures. The city's formal reserve target is 5% and there are no plans to reduce fund balance from current levels. If budgetary performance weakens as a result of increasing pension cost pressures, we note that the city's available general fund balance could be affected.

Very strong liquidity

In our opinion, Lawton's liquidity is very strong, with total government available cash at 41.0% of total governmental fund expenditures and 3.6x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Our belief that the city has strong access to external liquidity is based on the historical issuance of GO-, sales tax-, and enterprise revenue-backed debt. While Oklahoma state law permits certain investments we view as aggressive, Lawton's investment management policy restricts the city (outside of the retirement trust) to highly liquid or conservative investments.

Strong debt and contingent liability profile

In our view, Lawton's debt and contingent liability profile is strong. Total governmental fund debt service is 11.3% of total governmental fund expenditures, and net direct debt is 92.4% of total governmental fund revenue. Overall net debt is low at 2.0% of market value, and approximately 98.9% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Our assessment of Lawton's debt burden includes sales tax debt issued by the Lawton Water Authority, but does not include debt solely secured by utility revenues.

Following this issuance, the city will have no remaining voter authorization to issue GO debt. Officials are considering sales tax debt to fund public safety projects and additional GO issuance for street improvements in future, although plans have not been finalized.

Lawton's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.1% of total governmental fund expenditures in 2015. Of that amount, 5.4% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The city made 79% of its annual required pension contribution in 2015.

The majority of employee retirement benefits are provided by the Lawton Employee Retirement System, a single-employer defined-benefit plan. The city's contribution is determined by ordinance, but actuarial reports are generated regularly to monitor funding progress. As of fiscal 2015, the pension plan was 63% funded, with a \$28.5 million unfunded liability. Fiscal 2015's actual contribution was \$1.158 million less than the required payment. The city appointed a committee in February 2016 to examine options for addressing the situation. Recent changes to address the city's pension liability include a transition to a defined-contribution program for new employees. However, during recent years, investment returns have come in less than anticipated, somewhat offsetting these plan changes.

The city also participates in state-administered retirement plans for public safety employees, which received the full required contribution in fiscal 2015, and a retiree health care plan is funded on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Oklahoma cities and towns with general fund revenues greater than \$25,000 or population greater than 2,500 is strong.

Outlook

The stable outlook reflects our expectation that Lawton will maintain a very strong level of financial reserves and that Fort Sill will continue to provide a stabilizing presence for the local economy, but that the city's underfunded pension plan and below-average wealth and income levels will remain constraining factors for the next two years. For these reasons, we don't expect to change the rating during the two year outlook horizon.

Downside scenario

A significant deterioration in the local economy, most likely due to adverse developments at Fort Sill, or an inability to address the ongoing pension underfunding could result in negative rating action.

Upside scenario

Continued improvement in the city's economic metrics, combined with improved funding of its pension plan, could result in a higher rating, assuming all other rating factors remain stable or improve.

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

Ratings Detail (As Of April 3, 2017)

Lawton GO bnds ser 2016		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Lawton GO ltd tax bnds ser 2005 dtd 10/01/2005 due 07/01/2008-2020		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Lawton GO ltd tax bnds ser 2008 dtd 10/01/2008 due 07/01/2011-2023		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

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