

26 APR 2024

## **Fitch Affirms Alabama Muni Electric Auth Taxable Power Supply Rev Ref Bonds at 'AA-'; Outlook Stable**

Fitch Ratings - New York - 26 Apr 2024: Fitch Ratings has affirmed the following bonds issued by the Alabama Municipal Electric Authority, AL (AMEA) at 'AA-':

--\$22.0 million outstanding taxable power supply system revenue refunding bonds, 2020 series A.

Fitch has also affirmed AMEA's Issuer Default Rating (IDR) at 'AA-'.

The Rating Outlook is Stable

The 'AA-' IDR and bond rating reflect the authority's very strong financial profile in the context of its very strong revenue defensibility and low operating risk profile. Revenue defensibility is supported by the long-term, unconditional wholesale contracts AMEA has signed with its 11 members, as well as Fitch's assessment of the very strong credit quality of its two largest members - the cities of Foley (AL) and Dothan (AL). The 'AA-' rating also factors in the authority's low operating cost burden, supported by a diverse power supply.

AMEA's very strong financial profile is characterized by adequate liquidity of 110 days cash on hand as calculated by Fitch, and a low leverage ratio, measured as net adjusted debt to adjusted funds available for debt service, of roughly 6.10x in 2023, comparable to the five-year average of 6.08x. Fitch expects leverage to remain supportive of the current rating even under a moderate stress scenario.

## SECURITY

The bonds are payable by a first lien on net revenues of the system, after provision for operation and maintenance expenses.

## KEY RATING DRIVERS

### **Revenue Defensibility - 'aa'**

The authority's very strong revenue defensibility is supported by the revenue framework provided by the long-term, take-and-pay power sales contracts (PSCs) that extend through 2045. Payments made under the contracts are unconditional obligations payable as an operating expense of each member's electric utility system or integrated utility system, and provide for the unlimited reallocation of costs among the members. The contracts may be terminated, but only if adequate provisions have been made for the full payment of a member's obligations.

Revenue defensibility is further supported by the strong credit quality of the largest participants and AMEA's independent legal ability to adjust rates sufficient to meet all the costs associated with delivery of power through the contracts. The authority's rate structure provides it with very timely cost recovery from members and includes a demand and energy charge, as well as an energy cost adjustment charge that is adjusted monthly.

AMEA's 11 members have independent rate-setting ability and are required to set rates as needed to pay for all electric capacity and energy provided to it pursuant to the PSCs. Member credit quality is generally supported by a growing customer base that is largely residential and small commercial, retail rates that are competitive with the state average and very low leverage. Service area demographics are mixed, but support the assessment.

### **Operating Risk - 'a'**

The authority's strong operating risk assessment reflects a stable and low operating cost burden, underpinned by its diverse mix of purchased power agreements as well as operation of its own generating asset, the AMEA-Sylacauga natural gas fired facility. The operating cost burden remained relatively unchanged in 2023 at 7.3 cents/kWh. The authority's power supply portfolio will evolve in the near term, following the expiration of several power purchase agreements that expire at the end of 2025.

Presently, the majority of the authority's power is derived from its all-requirements contract with Alabama Power Company; however, effective Jan. 1, 2026, the majority of AMEA's power will be derived from its Southern Power Company Requirements Service Agreement. Fitch expects operating costs to remain favorable for the authority post transition.

Capital needs are moderate, given the authority's low age of plant and will be funded with excess cash flow and reserves.

## **Financial Profile - 'aa'**

The authority's consistent financial performance and very strong leverage support the 'aa' financial profile assessment. Leverage has averaged 6.1x over the past five years. Liquidity is adequate and neutral to the financial profile assessment. Fitch calculated coverage of full obligations (COFO) has been fairly steady, at 1.14x in 2023, vs. the five-year average of 1.10x.

In 2022 there were 110 days cash on hand (DCOH) compared to 129 DCOH the prior year. The liquidity cushion is comprised of \$69.5 million in unrestricted cash and investments, which includes the authority's rate stabilization fund with a balance of \$45 million. The authority's rate structure includes the ability to adjust rates in order to replenish reserves, if needed.

Fitch's scenario analysis suggests that leverage should remain very low going forward, even through a moderate stress. Fitch's stress or rating case indicates that an unanticipated decline in energy sales could push leverage higher, but the expected range (7.5x to 6.6x) would remain in line with the current rating.

## **Asymmetric Additional Risk Considerations**

No asymmetric additional risk considerations affected the final rating determination.

## **RATING SENSITIVITIES**

### **Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade**

- Actions by the Alabama Public Service Commission (APSC) deemed by Fitch to limit rate flexibility;
- Evidence of a weakening in purchaser credit quality, particularly from the largest members: the city of Dothan and the utilities board of the city of Foley;
- A sustained increase in leverage in excess of 8.0x in Fitch's rating case.

### **Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade**

- Evidence of strengthening purchaser credit quality, particularly from the largest members: the city of Dothan and the utilities board of the city of Foley;
- A decline in leverage to closer to 5.0x or less in Fitch's rating case, on a sustained basis.

## **PROFILE**

Alabama Municipal Electric Authority (AMEA) is a joint-action agency incorporated in 1981 to provide its members with a dependable and economically priced power supply. AMEA's 11 members consist of seven cities (the cities of Alexander City, Dothan, Fairhope, LaFayette, Lanett,

Opelika, and Piedmont), and four public corporations (the utilities board of the cities of Foley, Sylacauga, and Tuskegee and the electric board of the city of Luverne). The members are located primarily in southeast and southern Alabama and collectively serve over approximately 121,000 retail electric customers.

## Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG Considerations

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit <https://www.fitchratings.com/topics/esg/products#esg-relevance-scores>.

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## Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Alabama Municipal Electric Authority (AL)	LT IDR	AA- 	Affirmed	AA- 

- Alabama  
Municipal  
Electric  
Authority  
(AL)  
/Electric  
Revenues/  
1 LT
- |   |          |   |
|---|----------|---|
| AA-  | Affirmed | AA-  |
|---|----------|---|

## RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

## Applicable Criteria

[U.S. Public Power Rating Criteria \(pub.08 Mar 2024\) \(including rating assumption sensitivity\)](#)

[U.S. Public Sector, Revenue-Supported Entities Rating Criteria \(pub.12 Jan 2024\) \(including rating assumption sensitivity\)](#)

## Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

## Additional Disclosures

### [Solicitation Status](#)

### Endorsement Status

Alabama Municipal Electric Authority (AL)    EU Endorsed, UK Endorsed

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