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## Summary:

# Phenix City, Alabama; General Obligation; General Obligation Equivalent Security

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### Credit Profile

US\$9.48 mil GO sch warrants ser 2013-A dtd 04/01/2013 due 08/01/2032

*Long Term Rating* AA-/Stable New

Phenix City GO

*Long Term Rating* AA-/Stable Upgraded

## Rationale

Standard & Poor's Ratings Services raised its rating on Phenix City, Ala.'s general obligation (GO) debt one notch to 'AA-' from 'A+'. The outlook is stable.

The upgrade reflects our assessment of the city's ongoing economic development and, what we regard as, strong budgeting practices, resulting in recent and projected financial improvements.

At the same time, Standard & Poor's assigned its 'AA-' rating and stable outlook to Phenix's series 2013A GO school warrants, issued for the Phenix City Board of Education.

The rating reflects our opinion of the city's general creditworthiness, including its:

- Ongoing economic development due to its participation in the Columbus, Ga. metropolitan statistical area (MSA), anchored by Fort Benning and a Kia Motors automotive plant;
- Very strong finances with sizable operating surpluses projected for fiscal years 2012 and 2013; and
- Recent implementation of revenue enhancement measures, including raising the sales tax rate by 75 cents in 2011 and a new 1.5% business license tax on rental properties.

We believe the rating is somewhat constrained by, what we consider, Phenix's:

- Below-average income and wealth due, in large part, to the presence of Fort Benning and Troy University; and
- Stable, but concentrated, sales tax base with the 10 leading sales tax remitters accounting for 45% of revenue.

Officials intend to use series 2013A warrant proceeds to refund the city's series 2007B school warrants for an estimated present value savings of \$438,000. The series 2013A school warrants are a GO of the city, backed by the city's full-faith-and-credit pledge. Pursuant to a funding agreement between Phenix and the board of education, the board is pledging three dedicated revenue streams to the city for warrant repayment. This revenue includes the board's share of a countywide sales tax levied exclusively for school purposes, a 13-mill property tax levy, and a 4.5-mill property tax levy.

Phenix, Russell County's main economic center, is on the Chattahoochee River, directly across from Columbus, Ga. and the main portion of the Fort Benning military base. The total MSA population, which includes portions of Georgia,

is estimated at more than 295,000. The city's population, estimated at 33,804, has increased by 20% since the 2000 U.S. Census due, in large part, to Phenix's lower cost of living and improved access to Fort Benning, which has expanded recently due to the Base Realignment & Closure Act. It is our opinion that the federal government sequestration, which began on March 1, 2013, and the ongoing federal budget situation could potentially create a significant effect on the base's civilian personnel staffing, contractors, consultants, and vendors that collectively employ tens of thousands locally. Because we do not know how long the mandatory federal budget cuts will be in place or what outcome will result from the ongoing difficult decisions facing federal lawmakers, we will continue to monitor the situation.

While Phenix officials are not projecting a significant effect on civilian employment at Fort Benning, we believe growth in other sectors could offset any employment reductions at Fort Benning. Kia Motors' car plant, which opened in West Point, Ga. in 2006, has allowed Phenix to attract a number of suppliers to its industrial park. The Kia plant is adding a third shift, which should generate an additional 1,000 jobs. Other prevalent sectors that are expanding in and around the city include education at Troy University, health care, retail, and manufacturing. Unemployment was 7.1% in December 2012, below the state's and nation's rates. Income is, in our opinion, a low 64% of the national level due, in large part, to the presence of Fort Benning and Troy University in the city. Market value, a wealth indicator, is, in our view, an adequate \$45,087 per capita.

Phenix's property and sales tax bases continue to grow despite the national economic downturn. Assessed valuation has increased by 23% since fiscal 2007 to \$295 million in fiscal 2013, or an estimated market value of slightly less than \$1.5 billion. Sales tax revenue has grown; the sales tax base, however, is concentrated: The 10 leading sales tax generators accounted for an estimated 45% of fiscal 2012 collections.

Finances have improved recently and are now, what we consider, very strong. Management has been able to increase year-end general fund balance due to revenue growth and, what we regard as, very conservative budgeting practices, including the implementation of a hiring freeze. Based on year-to-date results, management is projecting it will end fiscal 2013 with a roughly \$800,000-\$840,000 operating surplus. In February 2013, the city council implemented a formal policy of maintaining a general fund cash reserve equivalent to at least 90 days'-120 days' expenditures, which the city is currently exceeding.

Unaudited fiscal 2012 results indicate a sizable \$4.27 million operating surplus due to a reduction in capital spending and revenue growth from a 75-cent increase to the sales tax rate, bringing year-end unassigned general fund balance to \$8.04 million, or, in our view, a very strong 28% of expenditures.

Audited fiscal 2011 results indicate a \$1.4 million general fund operating surplus that brought year-end unassigned fund balance to \$3.7 million, or, in our opinion, a very strong 15% of expenditures. Sales tax revenue (54%), licenses and permits (18%), charges for service (9%), and property taxes (8%) generated the bulk of fiscal 2011 general fund revenue.

Standard & Poor's considers Phenix's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Management recently implemented a policy that requires the maintenance

of at least 90 days'-120 days' cash in the general fund. While it does not have any formal debt management policies, we believe Phenix has, what we consider, very sound institutionalized practices that provide management with long-term consistency. Phenix's long-term capital improvement plan details costs associated with each line item.

While we have applied Phenix's GO debt rating to the series 2013A school warrants and outstanding parity debt, the board of education will use its three dedicated revenue streams for debt service payments. This pledged revenue increased by 8% since fiscal 2009 to \$7.97 million in fiscal 2012, which provided a 3.09x maximum annual debt service (MADS) coverage on the series 2013A school warrants and outstanding parity debt. We understand the city can issue additional parity debt if pledged revenue were to provide at least 1.25x MADS coverage on existing and proposed debt.

Including all overlapping entities and netting out self-support for its water and sewer debt, overall net debt is, in our opinion, moderately high at \$4,175 per capita, or about 9.3% of market value. We consider debt amortization slower than average with officials planning to retire 78% of principal over 20 years and 100% by 2036. We understand officials do not definitively plan to issue additional debt within the next 12-18 months.

Phenix provides pension benefits to employees by contributing to the Alabama Employees' Retirement System. The city has made the annual required contribution (ARC) over the past several years; the ARC equaled \$1.55 million in fiscal 2011. As of the most recent actuarial valuation, the pension plan was 65% funded with an unfunded actuarial accrued liability of \$16.4 million. Phenix also provides other postemployment benefits (OPEB) and funds it through pay-as-you-go financing. OPEB contributions were \$238,000 in fiscal 2011. Since the city funds the OPEB plan through pay-as-you-go financing, the entire accrued liability of \$8.5 million is unfunded.

## Outlook

The stable outlook reflects Standard & Poor's opinion that Phenix's local economy will likely continue to experience growth and diversification. We will likely continue to monitor the effect of federal sequestration cuts on Fort Benning; we, however, believe growth in other sectors of the city's economy will likely offset any civilian employment reductions at Fort Benning. The stable outlook also reflects our expectation that Phenix's conservative budgeting practices will likely allow it to maintain year-end general fund balances in excess of its formal policy. For these reasons, we do not expect to change the rating within the outlook's two-year period.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of April 5, 2013)		
Phenix City GO (AGM) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Phenix City GO (ASSURED GTY) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
<b>Phenix City GO</b>		

Ratings Detail (As Of April 5, 2013) (cont.)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
<b>The Pub Bldg Auth of the City of Phenix City, Alabama</b>		
Phenix City, Alabama		
The Pub Bldg Auth of the City of Phenix City (Phenix City Municipal Projs) (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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