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Summary:

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

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Summary:

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

Credit Profile

US\$10.245 mil tax-exempt GO warrants ser 2017B due 02/15/2037

Long Term Rating AA-/Stable New

US\$2.975 mil taxable GO warrants ser 2017A due 02/15/2037

Long Term Rating AA-/Stable New

Phenix City GO

Long Term Rating AA-/Stable Affirmed

The Pub Bldg Auth of the City of Phenix City, Alabama

Phenix City, Alabama

The Pub Bldg Auth of the City of Phenix City (Phenix City Municipal Projs) (AGM)

Unenhanced Rating AA-(SPUR)/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Phenix City, Ala.'s series 2017A taxable general obligation (GO) warrants and series 2017B tax-exempt GO warrants. At the same time, we affirmed our 'AA-' long-term rating and underlying rating (SPUR) on the city's existing GO debt. The outlook is stable.

The 'AA-' GO rating reflects the pledge of Phenix City's full faith, credit, and taxing power for payment of the debt. The property tax pledge in Alabama is limited; it has statutory tax limitations that include levies for debt service. Although it is technically a limited tax, our analysis focused on the strength of the full faith and credit pledge, which we view of equal credit quality as an unlimited tax GO. Further, the series 2017A and 2017B bonds are further secured by a sales and use tax. The series 2013A warrants are further secured by a 17-mill levy tax and sales tax revenues. However, we view the GO pledge as the stronger of the pledges. The series 2017A and 2017B warrants will be used to finance various capital improvements within Phenix City.

The 'AA-' rating reflects our assessment of the following general credit characteristics for Phenix City:

- Weak economy, with projected per capita effective buying income at 73.2% and market value per capita of \$41,381, that is gaining advantage from access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund and an operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 24.2% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity we consider strong;

- Very weak debt and contingent liability position, with debt service carrying charges at 13.2% of expenditures and net direct debt that is 234.5% of total governmental fund revenue; and
- Strong institutional framework score.

Weak economy

We consider Phenix City's economy weak. The city, with an estimated population of 38,764, is located in Lee and Russell counties in the Auburn-Opelika, AL and Columbus, GA-AL MSAs, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 73.2% of the national level and per capita market value of \$41,381. Overall, the city's market value grew by 3.3% over the past year to \$1.6 billion in 2017. The weight-averaged unemployment rate of the counties was 5.6% in 2016.

Phenix City is located in east central Alabama in Russell and Lee Counties along the Chattahoochee River and encompasses 25 square mile. It is located directly across the river from Columbus, Georgia, and Fort Benning, Ga. Residents commute into Columbus for additional employment opportunities. The city serves as a regional economic center for a 16-county trade area of west central Georgia and east central Alabama. There is currently a shopping complex under development as well as several planned expansions with several manufacturers.

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.

Phenix City has a long-term financial plan that projects revenue and expenditures over a five-year period that is reviewed by its elected officials annually. In addition, the city maintains a three-year capital improvement plan with funding identified. Management reviews its budget-to-actuals on a monthly basis, and amendments to the budget are made as needed by the entire council. Phenix City also conservatively budgets sales tax growth based on the previous year's expected actual revenues and discussions with major sales tax remitters, and management works closely with the assessor to estimate AV. Other practices of the city include a written investment policy that adheres to state guidelines. We understand that the city has a formalized reserve policy to maintain a reserve target of about \$2 million to protect it from any cash-flow issues. Finally, the city does not maintain any debt management policies, but does adhere to state statutes when considering debt.

Adequate budgetary performance

Phenix City's budgetary performance is adequate in our opinion. The city had slight deficit operating results in the general fund of negative 0.9% of expenditures, and deficit results across all governmental funds of negative 5.6% in fiscal 2015.

We have made adjustments to reflect recurring transfers into and out of the general and total governmental fund. The city's primary revenue sources include sales and use taxes (50%), property taxes (14%), licenses and permits (13%), and charges for services (7%). These revenue sources have demonstrated stable growth over the past three fiscal years.

Unaudited results for fiscal 2016 reflect a general fund surplus of at least \$876,000 or 2.5% of expenditures, which

management attributes to expenditures coming in lower than budgeted and no one-time capital spending. The fiscal 2017 adopted budget is balanced without the use of reserves and management indicates that revenues and expenditures are performing on track with the budget. Despite sales tax revenue softness at the state level, sales tax revenues are currently trending about 7% higher than this time last year. As such, we expect Phenix City will maintain its adequate budgetary performance.

Very strong budgetary flexibility

Phenix City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 21% of operating expenditures, or \$6.9 million.

The city has historically maintained reserves in excess of 20% over the past four fiscal years. Unaudited results for fiscal 2016 reflect an \$876,000 surplus, bringing the available fund balance to a projected \$7.8 million, or what we consider a very strong 22% of expenditures. The fiscal 2017 budget is balanced and management has no plans to draw down reserve levels. As such, we believe Phenix City will maintain its very strong budgetary flexibility over the next two years.

Very strong liquidity

In our opinion, Phenix City's liquidity is very strong, with total government available cash at 24.2% of total governmental fund expenditures and 1.8x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

The city's strong access to external liquidity is demonstrated through Phenix City's access to the market in the past decade. Phenix City has issued GO and revenue-backed debt over the past 20 years. The city has historically had what we consider very strong cash balances and, given that we anticipate balanced operations over the next two years, we believe its cash position will remain what we consider to be very strong.

Currently, all of the city's investments comply with state statutes and we do not consider them to be aggressive. At year-end fiscal 2016, Phenix City's investments were primarily held at local banks and complied with the Alabama Funds Enhancement program. The city does not have any exposure to contingent liabilities.

Very weak debt and contingent liability profile

In our view, Phenix City's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.2% of total governmental fund expenditures, and net direct debt is 234.5% of total governmental fund revenue.

We believe there are no plans to issue additional GO debt in the near future, which could allow debt ratios to moderate over time. We expect the debt profile to remain largely unchanged during the next two years given current debt ratios and below-average amortization schedule, with about 41% of principal retired over the next 10 years. The city has a \$5 million funding agreement with a local developer; however, the agreement has not yet been utilized and officials do not expect to use that money over the next two years.

Phenix City's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.2% of total governmental fund expenditures in 2015. Of that amount, 3.3% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in the Employees' Retirement System (ERS) of Alabama, a multi-employer, public employee retirement system that acts as a common investment and administrative agent for various state agencies and departments. Phenix City's required pension contribution is actuarially determined. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the city's net pension liability was measured as of Sept. 30, 2015, and was \$16.4 million. The ERS plan maintained a funded level of 68.9%, using the plan's fiduciary net position as a percent of the total pension liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The city provides post-employment benefits on a pay-go basis. As of Oct. 1, 2013, the city had an unfunded liability of \$10.2 million or an unfunded liability of 67.2% of covered payroll. The city has no plans to make adjustments to its funding of its pension system or post-employment benefits.

Strong institutional framework

The institutional framework score for Alabama cities and towns is strong.

Outlook

The stable outlook reflects our opinion that we will not change the rating over the two-year outlook horizon. The outlook further reflects our view of the city's very strong reserves, and that management will continue to maintain at least balanced operations across all funds. In addition, the outlook reflects our opinion that Phenix City will continue to experience stable economic growth given its participation in the Auburn-Opelika, AL and Columbus, GA-AL MSAs.

Downside scenario

Given the reliance of sales tax revenues as well as the high fixed costs related to debt service, we could lower the rating if there were a disruption to the city's economic base resulting in a weakening of the city's revenues. We could also lower the rating if Phenix City's budgetary performance were to demonstrate structural deficits, resulting in a weakening of the city's budgetary performance or a material reduction of reserve levels.

Upside scenario

A higher rating would likely follow a significant expansion of the economic base, coupled with a significant reduction to Phenix City's debt and liability profile.

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
- 2016 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 22, 2017)

Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed

Ratings Detail (As Of May 22, 2017) (cont.)

Phenix City GO sch warrants ser 2013-A dtd 04/01/2013 due 08/01/2014 2016 2018 2020 2022-2028		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Phenix City GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Phenix City GO		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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