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Summary:

**The Public Building Authority of the
City of Phenix City, Alabama
Phenix City; Appropriations; General
Obligation; General Obligation
Equivalent Security**

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Summary:

The Public Building Authority of the City of Phenix City, Alabama

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Credit Profile

US\$21.115 mil GO warrants ser 2020A due 02/01/2035

Long Term Rating

AA-/Stable

New

US\$17.08 mil taxable rev bnds (Phenix City mun projs) (Phenix City) ser 2020A due 04/01/2036

Long Term Rating

A+/Stable

New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Phenix City Public Building Authority, Ala.'s series 2020A taxable revenue bonds, supported by Phenix City. At the same time, S&P Global Ratings assigned its 'AA-' long-term rating to the city's series 2020A general obligation (GO) warrants. S&P Global Ratings also affirmed its 'A+' long-term rating on Phenix City Public Building Authority's series 2011A revenue bonds, supported by Phenix City, and its 'AA-' long-term rating and underlying rating on the city's GO warrants. The outlook is stable.

Security and use of proceeds

The 2020A and 2011A revenue bonds are limited obligations of the authority, payable solely from payments to be made under a lease agreement by Phenix City. Lease payments, equal to required annual principal and interest payments on the bonds, are the city's full faith and credit general obligation in each fiscal year in which the lease agreement is in effect. However, the lease agreement provides that the city may terminate the lease agreement with a written notice to the authority, submitted no later than Sept. 1 of any fiscal year, without penalty and without recourse against the city for lease payments in subsequent years. The ratings are one notch below the general creditworthiness rating, reflecting the annual appropriation risk inherent in the lease-backed structure that secures the bonds. The series 2020A revenue bond proceeds will refund a portion of the series 2011A revenue bonds outstanding.

The series 2020A GO warrants and Phenix City's previously issued GO warrants (series 2010B, 2011A, 2014A, 2014B, 2015A, 2017A, 2017B, and 2017C) are secured by its full faith and credit and taxing power for payment of the debt. The property tax pledge in Alabama is limited; statutory tax limitations include levies for debt service. We rate the city's GO warrants at the same level as our view of its general creditworthiness. To the extent the city has limitations on its ability to raise property tax rates, or has revenue-raising constraints of any other kind, we incorporate these when assessing the city's general creditworthiness, as expressed in the issuer credit rating. Series 2020A GO warrant proceeds will be used to refund a portion of the city's series 2010B GO warrants for present value savings.

In addition, the series 2017A and 2017B GO warrants are further secured by a special privilege, license, and excise tax

(commonly called a sales and use tax) to payment of the bonds. The series 2013A warrants are further secured by a countywide sales tax levied exclusively for school purposes, a 13-mill property tax pledge, and a 4.5-mill property tax pledge. We view the additional pledged revenue source as part of the general operating analysis. As a result, we rate the warrants on par with the city's general creditworthiness, reflecting our view of the fungibility of its resources and its ability to manage those resources, and supporting our view of its overall ability and willingness to pay.

Credit overview

Phenix City's local economy continues to experience moderate growth in population and taxable value. Favorable economic conditions have aided in the city's net performance and very strong available reserves. Its debt profile remains very weak, with a portion of debt issued on behalf of the board of education and additional debt plans in the near term. While the board of education has prepaid debt recently, we expect the city's debt profile will remain elevated during the next two years.

The rating reflects our assessment of the following general rating factors for Phenix City:

- Adequate economy, with projected per capita effective buying income (EBI) at 70.6% and market value per capita of \$68,955, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 37% of operating expenditures;
- Very strong liquidity, with total government available cash at 28.8% of total governmental fund expenditures and 2.0x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 14.4% of expenditures and net direct debt that is 189.4% of total governmental fund revenue; and
- Strong institutional framework score.

Adequate economy

We consider Phenix City's economy to be adequate. The city, with an estimated population of 36,690, is located in Lee and Russell counties in the Auburn-Opelika, Ala. and Columbus, Ga.-Ala. MSAs, which we consider to be broad and diverse. The city has a projected per capita EBI of 70.6% of the national level and per capita market value of \$68,955. Overall, the city's market value grew by 1.2% over the past year, to \$2.5 billion in 2020. The weighted-average unemployment rate of the counties was 3.9% in 2018.

Phenix City is in east-central Alabama, encompassing 25 square miles along the Chattahoochee River. It is located directly across the river from Columbus and Fort Benning, Ga. Residents commute into Columbus for additional employment opportunities. Fort Benning is an army post located outside of the city and just 15 miles from the city center. It is expecting growth in the near term, and growth at the base has historically resulted in some growth in the city from related housing needs. Phenix City serves as a regional economic center for a 16-county trade area of

west-central Georgia and east-central Alabama.

Phenix City's taxable value has increased 3.0%-4.0% per year in the past three fiscal years, and we expect the city will continue to grow at that pace in the near term. Recent development within Phenix City consists of growth in retail, commercial, manufacturing, and residential developments.

Adequate management

We view the city's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Phenix City maintains a three-year capital improvement plan with funding sources identified. Management reviews its budget-to-actuals on a monthly basis, and amendments to the budget are made as needed by the entire council. The city 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 assessed value. Phenix City's other practices include a written investment policy that adheres to state guidelines. We understand that the city has a formalized reserve policy of maintaining a reserve target of about \$2 million to protect it from any cash flow issues. The city does not maintain any debt management policies, but does adhere to state statutes when considering debt.

Strong budgetary performance

Phenix City's budgetary performance is strong, in our opinion. The city had operating surpluses of 6.0% of expenditures in the general fund and of 7.2% across all governmental funds in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2018 results in the near term.

We have made adjustments to reflect recurring transfers into and out of the general and total governmental funds. The city's primary revenue sources include sales and use taxes (62%), licenses and permits (16%), charges for services (7%), and property taxes (4%). These revenue sources have demonstrated stable growth over the past three fiscal years.

Audited results for fiscal 2018 reflect a general fund surplus of \$1.5 million, or 4.5% of expenditures, which management attributes to stronger sales tax revenue performance at 7.8% higher than fiscal 2017, in comparison to the 2.5% growth rate budgeted. The fiscal 2019 adopted budget is balanced without the use of reserves, and management indicates that unaudited revenues and expenditures performed favorably in comparison to budget assumptions, with an estimated \$3 million general fund surplus projected. During fiscal 2019, the city implemented an increase in the sales tax levy to 4.5% from 4%, effective July 1, 2019. The city expects a \$2 million operating fund surplus for fiscal 2020, attributable in part to the city's conservative approach to budget assumptions. We expect Phenix City will maintain its strong budgetary performance for the next two years.

Very strong budgetary flexibility

Phenix City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 37% of operating expenditures, or \$12.8 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, and we view this as a positive credit factor.

The city has maintained reserves in excess of 15% during the past four fiscal years. Unaudited results for fiscal 2019

reflect a \$3 million surplus, bringing the available fund balance to a projected \$15.8 million, or what we consider a very strong 42% of expenditures. The fiscal 2020 budget is balanced and trending favorably year-to-date, with an estimated \$2 million addition to reserves. 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 28.8% of total governmental fund expenditures and 2.0x governmental debt service in 2018. In our view, the city has strong access to external liquidity, if necessary.

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

While Phenix City could invest in instruments that comply with state statutes, as per the fiscal 2018 audit it does not have any unrestricted primary government investments. It does not have any exposure to direct-purchase debt. The city is a party to current litigations outstanding, but we expect none of these litigations will result in deterioration of its very strong liquidity position in the next two years.

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 14.4% of total governmental fund expenditures, and net direct debt is 189.4% of total governmental fund revenue.

Within the next two years, the city will potentially issue about \$10 million for a conference center project and \$35 million for a hotel development project. In addition, the city is contemplating an additional refunding opportunity during 2020.

While Phenix City's debt service carrying charges are elevated, a portion of its debt is issued on behalf of the Phenix City Board of Education, and funded with an intergovernmental funding agreement with school board funds. We expect the debt profile will remain very weak in the near term as a result of the city's debt plans.

Phenix City's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.0% of total governmental fund expenditures in 2018. Of that amount, 2.9% represented required contributions to pension obligations and 1.1% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Pension plan highlights:

- We do not view pension and OPEB liabilities as an immediate source of credit pressure for Phenix City, despite lower funding levels and our expectation that costs will increase.
- OPEB liabilities are funded on a pay-as-you-go basis, which is likely to lead to escalating costs. However, the city has legal flexibility to alter OPEB benefits and a willingness to use this flexibility, which we view as a potential means to mitigate escalating costs.

Phenix City participates in the following plans as of June 30, 2018:

- Alabama Employee Retirement System (ERS): 68.5% funded with a net pension liability of \$19.6 million.
- A defined-benefit health care plan that provides both explicit and implicit subsidies to retirees until age 65: 0% funded with an OPEB liability of about \$16.9 million.

Although the city funds 100% of pension actuarially determined contributions, these contributions fell short of both static funding and minimal funding progress. In our view, a discount rate of 8% for plans could lead to contribution volatility. Given the low pension and OPEB carrying costs, we expect annual contributions will increase, but remain manageable in the near term.

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 maintain at least balanced operations across all funds. Additionally, the outlook reflects our opinion that Phenix City will experience stable economic growth, given its participation in the Auburn-Opelika, Ala. and Columbus, Ga.-Ala. MSAs.

Downside scenario

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

Upside scenario

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of January 28, 2020)

Phenix City GO		
Long Term Rating	AA-/Stable	Affirmed

Ratings Detail (As Of January 28, 2020) (cont.)

Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Phenix City GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
The Pub Bldg Auth of the City of Phenix City, Alabama		
Phenix City, Alabama		
Phenix City Pub Bldg Auth (Phenix City) (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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