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# Birmingham, Alabama; General Obligation

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# Birmingham, Alabama; General Obligation

## Credit Profile

US\$18.495 mil GO warrants ser 2009A due 06/01/2029

<i>Long Term Rating</i>	AA/Stable	New
Birmingham GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating, and stable outlook, to Birmingham, Ala.'s general obligation (GO) bonds and warrants, series 2009A. At the same time, we affirmed our 'AA' underlying rating on the city's GO bonds and warrants outstanding.

The rating reflects what we view as the city's:

- Diverse economic base and position as Alabama's economic and business center;
- Diverse revenue stream; and
- Consistently strong financial performance and significant reserves within and outside the general fund.

These strengths are offset in our opinion by the city's:

- Revenue pressures due to the recently slowing local economy; and
- Moderately high debt burden coupled with an aggressive capital improvement program.

The city's full faith and credit pledge secures the bonds and warrants.

The Birmingham metropolitan statistical area features the state's broadest and most diverse economy in our view, including strong service, financial, and trade sectors. We believe stability in the health care, financial, and government sectors has allowed the local economy to diversify, resulting in a more stable employment base and greater resilience in recessionary periods. According to the U.S. Census statistics, the city's population has been declining for more than 50 years as residents have settled in the many surrounding municipalities. The 2000 U.S. Census reflected a population of 242,820, down 8.7% from 1990. According to 2007 estimates, population fell a further 5.6% to 229,800. City management has focused on promoting residential development downtown, which it hopes will reverse the declining population trend as indicated by the 2010 U.S. Census. City unemployment peaked at 8.3% in March 2009 and began to decline as of April 2009, when it was down to 7.7%, which was slightly below the state's rate of 9.0% for both periods. Birmingham's median household income in 2007 was what we consider an adequate 69% of the national average.

The University of Alabama at Birmingham is the city's leading employer and home of University of Alabama at Birmingham Medical Center, a leading regional facility.

Assessed value has risen by a cumulative 21% since fiscal 2004 to \$2.93 billion, or an estimated market value of \$17.2 billion, in fiscal 2008. As the population has continued to decline and overall market value has grown in the past 10 years, market value has increased significantly to an estimated \$74,864 per capita in fiscal 2008 from what we viewed as a low \$35,000 in fiscal 1997.

Fiscal 2008 ended with what Standard & Poor's considers a good \$21 million general fund surplus after transfers. The total general fund balance was \$107.8 million, or what we see as a very strong 33.9% of general fund expenditures and transfers, at fiscal year-end 2008. In fiscal 2009, management expects recent increases in sales tax rates and license fees to generate an additional \$46 million in revenue, which has been earmarked for capital projects and city economic development initiatives. The fiscal 2009 budget has been amended to reflect break-even operations at year-end, due to sales tax revenues being almost 10% below budgeted estimates. Birmingham has taken a series of steps to control expenses, which has enabled it to potentially end fiscal 2009 without the use of reserves. In addition to the general fund balance, at the end of fiscal 2008, the city maintained \$84.9 million in a separate fund, the Birmingham Fund, reserved for capital. Management originally funded this fund using proceeds from the transfer of assets of the utility system to the Birmingham Water and Wastewater Board in 2000. The corpus has remained largely untouched, and interest earnings from the fund have historically helped support annual pay-as-you-go capital projects.

Standard & Poor's deems Birmingham's management practices "good" under its Financial Management Assessment (FMA) methodology. An FMA of good indicates practices exist in most areas, though not all might be formalized or regularly monitored by government officials.

In our view, overall net debt levels are moderately high, at 7.1% of market value and moderate at about \$5,304 per capita. The annual debt service carrying charge is what we consider a moderate 13% of budgeted recurring general fund and debt service expenditures in fiscal 2008, while amortization is average with about 50% of all principal being retired over 10 years. For several years, management has planned to construct a domed stadium in the city to spur additional economic development; preliminary cost estimates for the project are \$500 million and officials indicate they could issue the first phase of debt in the next two years, which could increase debt levels further. City officials expect a portion of the recent increase in the business license fees to generate \$19 million annually to help support future debt service for the dome project.

## Outlook

The stable outlook reflects what Standard & Poor's considers Birmingham's historically diverse economic base. The outlook also reflects our expectation that the city will sustain its strong financial position and that management will continue to maintain a manageable debt burden despite significant additional capital plans.

## Finances

Birmingham's operating revenue stream is diverse in our opinion. Sales and use taxes generated 33.6% of fiscal 2007 general fund revenues. Birmingham also imposes an occupational tax in an amount equal to 1% of earned income within the city regardless of residential status. Occupational taxes represented 23% of fiscal 2007 general fund revenues. Property taxes represented just 8% of fiscal 2007 general fund revenues. Overall, fiscal 2007 general fund revenues rose by 5.9% over fiscal 2006 receipts spurred by good growth in sales and occupational tax collections. In fiscal 2009, city officials expect a 1% increase in the Birmingham's sales tax rate to generate an additional \$18 million of sales taxes by fiscal year-end. Management intends to use the sales tax increase, which sunsets in fiscal 2014, for public safety improvements; economic development; and transit, street, and sidewalk improvements. In addition, the city doubled its business license fee in fiscal 2008, which officials expect will generate an additional \$28 million per year to help support future capital projects.

Recent management and financial problems at the Birmingham City Board of Education include the recent resignation of the superintendent and the school board's need to cut expenditures to stem a deteriorating financial position. Although the city is not responsible for supporting the school board, it has provided funds for capital and operational purposes to the board in the past. The city budgeted a one-time \$3 million transfer to the schools in fiscal 2007 and has budgeted another \$1.895 million of support in fiscal 2008. City officials have indicated they continue to hold discussions with the school board but have no imminent plan to give additional subsidies beyond what has already been budgeted.

## Financial Management Assessment: 'Good'

Birmingham's management practices are considered "good" under Standard & Poor's FMA methodology, indicating practices exist in most areas although not all might be formalized or regularly monitored by government officials.

Management relies on historical trends to forecast budgeted revenues, and prepares monthly status budget reports and a midyear budget report, providing them to the city council and mayor; the council amends the budget on an as-needed basis. The city council adopts a comprehensive five-year capital improvement program with identified funding sources that it updates annually. Management prepares an internal long-range financial plan that projects operating revenues and expenditures.

Birmingham maintains an investment policy; however, this is being updated and investment reports have not been regularly presented to council. The city has a minimum general fund balance policy equal to the greater of 15% of general fund expenditures or three months of operations, which is included in the annual operating budget and discussed by council during budget adoption; historically, the city has maintained balances in excess of its minimum policy. Birmingham officials recently adopted a formal debt policy that will limit, among other provisions, the amount of variable-rate debt outstanding the city can have at any one time.

## Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

### Ratings Detail (As Of June 19, 2009)

#### Birmingham GO

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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