

## *City of Mobile, Alabama*

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**Credit Profile**

**US\$70.422 mil General Obligation Refunding and Improvement Warrants, Series 2009  
dated 09/30/2009, due 09/30/2030**

Long Term Rating	AA- / Stable	New
<b>Outstanding General Obligation Warrants, Series 2008</b>		
Unenhanced Rating	AA- (SPUR) / Stable	Affirmed
<b>Outstanding General Obligation Refunding and Improvement Warrants, Series 1998</b>		
Unenhanced Rating	AA- (SPUR) / Stable	Affirmed
Outstanding General Obligation Warrants, Various Series		
Unenhanced Rating	AA- (SPUR) / Stable	Affirmed

**Many issues are enhanced by bond insurance.**

**Rationale**

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating, with stable outlook, to **Mobile, Ala.**'s series 2009 general obligation (GO) refunding and improvement warrants. At the same time, Standard & Poor's affirmed its 'AA-' long-term and underlying rating (SPUR) on the city's outstanding GO debt.

The rating reflects our view of the city's:

- Role as a regional service, manufacturing, and trade center, with an expanding local economy;
- Good financial performance with healthy combined reserves; and
- Moderate debt burden.

The rating is partially constrained by merely adequate income levels and a reliance on sales tax revenues, which have fluctuated in prior years.

The city's faith and credit pledge secures the warrants, which will be used to refund certain outstanding warrants, and to finance the construction of the National Maritime Museum of the Gulf of Mexico.

Mobile, with a population of almost 200,000, is located about 27 miles north of the Gulf of Mexico at the head of Mobile Bay. The city serves as a regional trade and service center for the surrounding area. The area economy is centered on education, health care, manufacturing, and shipping. Leading local employers include the local school system (8,000 employees), Mobile Infirmary Medical Center (5,800), the University of South Alabama (5,000), and Wal-Mart (3,000). The city's unemployment rate stands at roughly 2.9% for 2008, which is below the national average. The city has been successful in attracting a number of new employers to the region, which are investing roughly \$862 million across a number of fields, including petroleum, shipbuilding, and other manufacturing. In conjunction with the direct jobs that these investments are creating, residential development has also been robust. Total building permit values during 2008 totaled \$254 million, which, though down slightly from 2007, is nearly 30% higher than the 2000 level. The most prominent economic development activity in the area is the announcement by ThyssenKrupp regarding its intention to construct a steel and stainless steel processing facility. The city estimates that the total investment will be roughly \$4.5 billion, with 29,000 construction jobs and 2,700 permanent jobs once the facility begins operations, currently scheduled for late 2010.

The city's tax base has been growing at an annual average rate of 6% over the past five years, to a current total of \$2.3 billion. The property tax base is what we consider diverse, with the 10 leading taxpayers accounting for 19.5% of total assessed value. This concentration is mitigated by the fact that the city derives only a small percentage of its total revenue from property taxes, with the majority generated through sales taxes. Total market value for the city is more than \$14.4 billion, or what we believe is a strong \$75,165 per capita. At 77% of the national average, the city's median income levels are what we consider adequate.

We believe that Mobile's financial position is sound, with a fiscal 2007 unreserved general fund balance of roughly \$13 million, or what we consider a good 7% of operating expenditures. Audited fiscal 2008 results indicate a general fund drawdown of roughly \$1.3 million due to an increase in expenditures, bringing the unreserved general fund balance to \$11 million, or what we consider a good 5.6% of expenditures. The city maintains other reserves outside the general fund in its capital improvements fund and strategic plan fund, which, though designated for future capital spending, could be transferred into the general fund if required. The city makes transfers between funds every year in order to make debt service payments and to reimburse the general fund for maintenance expenses. Audited fiscal 2008 results show an ending balance of roughly \$47 million across these three funds, or what we consider a very strong 22% of expenditures in these same funds. Management is projecting to end fiscal 2009 with break-even operations, and they plan to adopt a balanced budget for fiscal 2010.

The city generates the majority of its revenues through a local sales tax, with most other revenues coming from licenses and permits, property taxes, and gas taxes. Despite some inherent volatility, sales taxes have been a fairly steady source of revenue for the city. Sales tax revenues were flat from 2002-2004, hovering near \$130 million, but increased steadily since then to \$149 million in fiscal 2006 and \$142 million in fiscal 2007. Fiscal 2008 showed a decline in the collection of sales tax revenues, and through June of 2009, sales tax collections have been down by about 3.5%, or roughly \$3.7 million,

due to the recent economic downturn. However, property tax collections for the same period are currently above budget which partially offsets this decline.

The city of Mobile's financial management practices are deemed "good" under Standard & Poor's Financial Management Assessment, indicating practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. City officials tend to budget conservatively; periodic reports are provided to the city council, and there is a long-term capital budget completed each year. There are no formal debt management policies, nor a formal long-term operating plan, but a formal investment policy is in place, as well as informal reserve targets.

Overall net debt levels are what we consider to be moderate at about \$3,018 per capita and 4.0% of market value. Debt service amortization is slower than average, with 33% of principal due to be retired within the next 10 years and 77% of principal due to be retired in the next 20 years. As a percent of combined fund expenditures, debt service represents about 9% of expenditures. Officials anticipate issuing again in October of 2009 to complete the National Maritime Museum, but at this point, they are unsure of the exact amount of money that would need to be issued.

### ***Outlook***

The stable outlook reflects our expectation that the ongoing expansion of the city's and area's economic base will provide additional stability to the sales tax revenue stream and will allow management to maintain sound balances in the general, strategic plan, and capital improvement funds.

### ***Related Research***

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

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