

Hoover, Alabama; General Obligation

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Credit Profile		
US\$56.445 mil GO warrants ser 2010 dtd 11/01/2010 due 03/01/2022		
<i>Long Term Rating</i>	AA+/Stable	New
Hoover GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Hoover GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating, and stable outlook, to Hoover, Ala.'s series 2010 general obligation (GO) warrants and affirmed its 'AA+' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's parity GO debt.

The rating reflects our opinion of the city's:

- Favorable location in the Birmingham metropolitan statistical area, supporting its role as one of the state's retail hubs;
- Very strong income and property wealth levels; and
- Strong financial position, evidenced by its historical maintenance of very strong reserves.

Our opinion of the city' reliance on, and concentration in, sales and use tax revenues compared to total general government revenues offsets, in part, these strengths.

The city's full faith and credit pledge secures the series 2010 warrants. Officials plan to use warrant proceeds to refund the city's series 2003 GO warrants outstanding.

Due to the prominence of Hoover's retail sector, sales and use taxes accounted for a large 74% of all tax revenues in fiscal 2009. Merchandise retail, a level that has been stable over time, generates roughly 70% of sales tax revenues. The city is not dependent on any of its principal sales tax generators: The 10 leading taxpayers accounted for about 27% of sales tax revenues in 2009. City management transferred an annual contribution of \$2 million to the school system during fiscal 2010; this type of transfer is at the city's discretion. City officials plan to make the same transfer again in fiscal 2011.

The city's financial condition remains a strength. The \$30.9 million unreserved, undesignated general fund balance for fiscal 2009 equaled a strong 37% of expenditures, which also exceeded the city's reserve policy. Management expects to end fiscal 2010 with a \$31.4 million fund balance after transferring roughly \$4.0 million into the capital fund, and it is projecting a break-even fiscal 2011 budget. Officials believe sales tax revenues have bottomed out after declining by 6% in fiscal 2009, and they are projecting actual sales tax revenues to be \$2.5 million above budgeted fiscal 2010 levels.

Standard & Poor's deems Hoover's financial management practices "good" under its Financial Management

Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Key management practices include regular monitoring and reporting of budgeted figures compared with actual results and year-to-date performance with special attention paid to sales and use tax revenues. In addition, the city maintains a five-year capital improvement program that fully delineates funding sources; management has historically followed its strong policy of maintaining reserves equal to 30% of revenues.

After accounting for partial self-support from the sewer system for roughly 21% of GO debt, the city's overall net debt burden is a moderate 3.5% of the estimated \$11.1 billion market value. Management, however, attributes most of this to overlapping debt from Hoover City Board of Education and Jefferson County. Direct debt burden has remained constant at between 0.8% and 2.5% of market value. The sewer system does not fully self-support all allocable GO debt, but net sewer revenues in fiscal 2009 totaled \$1.75 million and provided 0.81x coverage of all GO debt allocable to the sewer system. Annual debt service for all GO debt allocable to the sewer system is roughly \$2.1 million in fiscal 2011, or roughly 19% of total annual GO debt service. We consider debt amortization above average with officials planning to retire 68% of GO debt principal over 10 years.

Of the current \$50 million five-year capital plan, management indicates it will likely use pay-as-you-go financing to fund \$10 million of identified projects. City officials are preliminarily considering issuing \$40 million of debt for a new performing arts and convention center within five years. Management, however, does not have current additional debt issuance plans.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will likely maintain its strong financial condition, including very strong reserves, to help mitigate the inherent risks in its dependence on sales tax revenues, which are susceptible to economic cycle fluctuations.

Economy: The Affluent Suburb Serves As A Retail Hub

Hoover is one of Birmingham, Ala.'s largest and most affluent suburbs, centrally located near U.S. highways 280 and 31 and State Highway 150. City population, which grew by 23% between 2002 and 2009, is now about 81,610. While the city is home to a diverse employer mix, and while it has perennially low unemployment, its most prominent role is that of the state's retail hub with a strong and growing retail base. City unemployment of 6.1% in August 2010 remained well below the nation's rate. City wealth and income levels are very strong: Median household effective buying income is 181% of the state's average and 144% of the nation's average. Per capita retail sales were 179% of the nation's 2009 average.

Management attributes continued growth to Riverchase Galleria, the state's largest and most frequented mall. Additional retail base growth remains ongoing. Recently completed developments include a large retail center with a Target Corp. supercenter as its anchor, and the Renaissance Birmingham Ross Bridge Golf Resort attracts visitors and supports retail activity with its 248 guest rooms. In addition, the galleria's developers are continuing their efforts to ensure its draw and popularity remain high. Market value, often used as an indicator of relative wealth, is also extremely strong at roughly \$136,194 per capita. Taxable assessed valuation (AV) grew by 43% over the past five years to \$1.7 billion in fiscal 2009. The city does not depend on any of its principal property taxpayers with the

10 leading taxpayers accounting for just 12% of total AV.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Hoover, Alabama			
Economic statistics			
Population	81,616		
Median household EBI, % of U.S.	144.0		
Per capita EBI, % of U.S.	162.0		
Total market value per capita (\$)	136,194		
Net direct debt (\$000s)	89,020		
Net direct debt per capita (\$)			
Net direct debt, % of market value	0.8		
Assessed value (\$000s)	1,729,714		
Market value (\$000s)	11,115,616		
EBI -- Effective buying income. Population and income -- Source: Claritas.			
Financial statistics (fiscal year-end)	9/30/2009	9/30/2008	9/30/2007
General fund balance (\$000s)	31,300	31,202	31,100
General fund balance, % of general fund expenditures	38.4	35.2	36.6
Unreserved fund balance (\$000s)	30,937	30,775	30,453
Unreserved fund balance, % of general fund expenditures	38.0	34.7	35.9
Total general fund expenditures (\$000s)	81,472	88,649	84,909
Total general fund expenditures -- one-year change (%)	(8.1)	4.4	3.8
Total general fund revenues (\$000s)	87,731	95,697	96,390
Total general fund revenues -- one-year change (%)	(8.3)	(0.7)	2.6

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