

Summary: Hoover, AL; Tax Secured, General Obligation

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Credit Profile	
US\$19.81 mil GO warrants ser 2005 due 12/01/2019 Sale date: 01-APR-2005	AA
AFFIRMED	
\$8.580 mil. Hoover GO	AA
\$72.060 mil. Hoover GO (MBIA)	AAA/AA(SPUR)
OUTLOOK:	STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating, and stable outlook, to Hoover, Ala.'s series 2005 GO warrants.

Standard & Poor's also affirmed its 'AA' standard long-term rating and Standard & Poor's underlying rating (SPUR), and stable outlook, on the city's GO debt outstanding.

The ratings continue to reflect the city's:

- Favorable location in the Birmingham MSA,
- High income and wealth levels, and
- Strong financial performance.

These strengths are offset, in part, by:

- The city's ongoing growth pressures, and
- The importance of the sales and use tax to the city's total general government revenues.

The city's full faith and credit pledge secures the warrants. The city will use warrant proceeds to refund various maturities on its series 1999 and 2003 GO warrants outstanding.

Hoover, which is a rapidly growing community bordering Birmingham, Ala., is centrally located near U.S. highways 280 and 31 and State Highway 150. The city's population, which grew by 58% between 1990 and 2000, is about 65,000. The city hosts a mix of employers in services, utilities, retail, finance, construction, and insurance. Subsequently, unemployment has been historically stable and consistently below 2% over the past 10 years, which is well below national averages. Wealth and income levels are strong: Median household effective buying income is at 173% of the state's average and 145% of the nation's average.

Hoover remains the state's retail hub with a strong and growing retail base, which is evidenced by per capita retail sales at 203% of the state's average and 164% of the nation's average. Continued growth is attributed to Riverchase Galleria, the state's largest mall, which serves an estimated 13 million customers annually, as well as other retail centers on the main thoroughfares. In addition, the property tax base has experienced strong growth of more than

9% annually over the past five years to \$1.2 billion of fiscal 2005 assessed value, corresponding to a more-than \$6.0 billion estimated market value. At the same time, the city is not dependent on any of its principal taxpayers.

Hoover's revenue stream is highly dependent on sales and use taxes, which account for about 64% of unaudited 2004 total general government revenues; Riverchase Galleria generated the largest share of sales and use tax revenues. Management's policy is to transfer 6% of sales tax revenues received into the school system. Sales tax revenues, which have risen by an average of 3% annually over the past several years, increased by about 8% in 2004. Officials budgeted a 1.5% increase for fiscal 2005 due, in part, to the April 2004 opening of Patton Creek's 500,000-square-foot retail facility across the street from Riverchase Galleria. In addition, officials routinely transfer money into the library and park-and-recreation component units from the general fund to accommodate operating deficiencies. Despite these transfers, the city's financial performance has been historically strong. Management reported a \$26.8 million unreserved, undesignated general fund balance, or nearly 40% of operating expenditures, at fiscal year-end 2003. Officials expected to post a surplus in fiscal 2004, and the 2005 budget as approved is balanced; the budget, however, was approved late.

The city's direct debt is low at about 2% of market value, or roughly \$2,000 per capita; overall net debt, including overlapping debt from the school system, pushes that to in excess of \$4,000 per capita, or a moderate 5% of market value. Officials will fund the majority of the five-year capital plan with annual revenues and various designated reserves and surpluses previously set aside for exactly that purpose. Management does not plan to issue any additional debt in the near future.

Outlook

The stable outlook reflects the expectation that economic development will continue to grow and diversify the property tax base and that the city will continue to maintain its sound reserves, mitigating the risk inherent in its dependence on sales tax revenues.

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