STANDARD & POOR'S RATINGS SERVICES

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Summary:

Hoover, Alabama; General Obligation

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Credit Profile		
US$11.255 mil taxable GO rfdg warrants ser 2013-B dtd 05/01/2013 due 03/01/2017		
Long Term Rating	AA+/Stable	New
US$8.92 mil GO rfdg warrants ser 2013-A dtd 05/01/2013 due 03/01/2021		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' standard long-term rating to Hoover, Ala.'s series 2013-A and 2013-B general obligation (GO) refunding warrants, and affirmed its 'AA+' standard long-term rating and Standard & Poor's underlying rating (SPUR) on the city's parity GO debt. The outlook on all the ratings is stable.

In our view, the 'AA+' rating reflects the city's:

- Location in the Birmingham metropolitan statistical area (MSA), supporting its role as one of the state's retail hubs;
- Very strong incomes and property wealth; and
- Strong financial position, as evidenced by historically maintaining very strong reserves.

In our opinion, the reliance and concentration of Hoover's sales and use tax to the total general government revenues offsets, in part, these strengths.

The city's full faith and credit pledge secures the series 2013-A and 2013-B warrants. Officials will use warrant proceeds to refund a portion of the city's series 1999, 2000, and 2004 GO warrants.

Hoover, with an estimated population of 85,000, is in central Alabama and is one of Birmingham's largest and most affluent suburbs. While the city is home to a diverse employer mix and has perennially low unemployment, its most prominent role is that of the state's retail hub with a strong and growing retail base. The city's unemployment rate of 3.9% in December 2012 remains well below the national level. City wealth and incomes are very strong: Median household effective buying income is 134% of the nation's average. Per-capita retail sales are 152% of the nation's 2012 average.

Management attributes continued growth to Riverchase Galleria, the state's largest and most-frequented mall. The Galleria, which is planning a $60 million-$90 million redevelopment, continues to spur additional retail and commercial growth in the city. Per-capita market value, often used as an indicator of relative wealth, is also extremely strong at roughly $133,000. Taxable assessed valuation (AV) has grown by 21% over the past five years to $1.7 billion in fiscal 2012. The city does not depend on any of its principal property taxpayers, with the 10 leading property taxpayers accounting for just 12% of total AV.

Hoover's financial condition remains very strong. For fiscal 2013, the city's revenues and expenditures have been performing ahead of the budget, with sales tax revenues up $1.5 million over the budget. Additionally, management expects to end fiscal 2013 with a $30.7 million fund balance after transferring surplus revenues into the capital fund. The $30.6 million unreserved, undesignated general fund balance for fiscal 2012 equated to a strong 37% of expenditures, which exceeded the city's policy of maintaining 30% in reserve. Officials expect sales tax revenues to continue to increase in the years ahead based on a growing retail and commercial sector and an increasing population. Due to the prominence of Hoover's retail sector, sales and use taxes account for a large 71% of all general fund revenues in fiscal 2012. Merchandise retail, a level that has been stable over time, generates roughly 70% of sales tax revenues.

Standard & Poor's considers Hoover's financial management practices "good" under its Financial Management Assessment 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, and has historically followed its strong reserve policy equal to 30% of expenditures.

The city provides pension benefits to retirees through the Employees' Retirement System of Alabama, a multiple-employer pension benefit plan. For fiscal 2011, the city met 100% of its annual pension cost of $4.5 million. Hoover also provides other postemployment benefits (OPEBs) to retirees, including medical and dental benefits. For fiscal 2012, the city did not make a contribution to the annual OPEB cost of $654,000. The total pension cost of the city accounted for 5% of the city's operating expenditures.

After accounting for partial self-support from the sewer system for roughly 22% of GO debt, the city's overall net debt burden is a moderate $3,500 per capita, but a low 2.7% of the estimated $11.2 billion market value. Management, however, attributes most of this to overlapping debt of Hoover City and Shelby County boards of education. We consider debt amortization above average with 74% of GO debt principal to be paid over 10 years. The city does not intend to issue additional parity debt within the next 12 months, and will continue to address its capital needs on a pay-as-you-go basis.

Outlook

The stable outlook reflects the expectation that Hoover will maintain its strong financial condition, including very strong reserves, to help mitigate risks inherent in its dependence on sales tax revenues which are susceptible to fluctuations from economic cycles. While we do not view it as likely, a material decline in the city's sales tax revenues could put negative pressure on the rating. We do not anticipate a rating change within the two-year outlook horizon.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

Ratings Detail (As Of April 22, 2013)		
Hoover GO		
Long Term Rating	AA+/Stable	Affirmed
Hoover GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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