

### Summary:

# Hoover, Alabama; General Obligation

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### Credit Profile

US\$18. mil GO swr warrants ser 2007 dtd 10/01/2007 due 03/01/2037

*Long Term Rating* AA/Stable New

Hoover GO

*Long Term Rating* AA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' standard long-term rating, and stable outlook, to Hoover, Ala.'s series 2007 GO sewer warrants and affirmed its 'AA' standard long-term rating and Standard & Poor's underlying rating (SPUR), with a stable outlook, on the city's parity GO debt.

The ratings continue to reflect the city's:

- Favorable location in the Birmingham MSA, supporting its role as one of the state's retail hubs;
- High income and wealth levels; and
- Strong financial performance, including the maintenance of very sound reserves.

The importance of the sales and use tax to the city's total general government revenues offsets, in part, these strengths.

The city's full faith and credit pledge secures the warrants. Officials will use warrant proceeds to support the city's sanitary sewer system and enhance and upgrade the Riverchase wastewater treatment plant.

In June 2006, the city entered into a consent decree with Alabama Department of Environmental Management, the state environmental regulatory body, which found the city was in violation of its national pollutant discharge elimination system permit requirements for that treatment plant. The city is expanding treatment capacity and comprehensively upgrading the plant, as well as undertaking related inflow and infiltration remediation to its collection system. Management has indicated it fully expects to have all consent-decree-related projects finished well ahead of the department of environmental management's June 2010 deadline.

While officials do not expect these efforts to affect sewer rates, they believe the sewer system will still fully self-support all allocable GO debt, including these warrants. Upon completion of identified projects, management expects to engage in a sewer rate study. For fiscal 2006, the most recent audited year, the sewer fund generated nearly \$3.9 million of net operating income. Projected maximum annual debt service for all GO debt allocable to the sewer system, including series 2007 warrants, is roughly \$2.1 million.

Due to the prominence of Hoover's retail sector, sales and use taxes account for about three-fourths of all general fund revenues. 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 with the 10 leading taxpayers accounting for about 25% of sales tax revenues. Management discretionally transferred a fixed payment of \$7.5 million of sales tax revenues received into the school system during fiscal 2007, and it plans to do so again in fiscal

2008.

The city's financial condition remains a strength. The \$30.3 million unreserved, undesignated general fund balance for fiscal 2006 equated to a strong 37% of expenditures, which exceeded the city's policy of maintaining 30% in reserve. Management expects to end fiscal 2007 with a \$31.3 million fund balance, and it is projecting a break-even fiscal 2008 budget. Sales tax revenues continue their steady growth, but there are no conservative forecasts for fiscal 2008.

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. Highlights include management's:

- 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;
- Five-year capital improvement program that fully delineates funding sources; and
- Strong reserve policy.

The city's overall net debt burden is elevated at about 4.2% of the estimated \$8.7 billion market value. Management, however, attributes most of this to overlapping schools. Direct debt burden has remained constant at between 1.5% and 2.0% of market value. Of the current five-year capital plan, management indicates it will likely use pay-as-you-go financing to fund identified projects; it has not identified any large projects. Management does not plan to issue any additional debt in the near future.

## Outlook

The stable outlook reflects the expectation that the city will maintain a strong financial condition, including sound reserves, to help mitigate risks inherent in its dependence on sales tax revenues.

## Economy

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 58% between 1990 and 2000, is now about 75,000. 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. Per capita retail sales are 203% of the state's average and 164% of the nation's average. Management attributes continued growth to Riverchase Galleria, the state's largest and most-frequented mall. Additional retail base growth remains ongoing. A large retail center with a Target Corp. supercenter as its anchor should open by the end of 2008. In addition, the galleria's developers are continuing their efforts to ensure its draw and popularity remain high. City wealth and income levels are strong: Median household effective buying income is 173% of the state's average and 145% of the nation's average. Per capita market value, often used as an indicator of relative wealth, is also high at roughly \$115,000. Taxable assessed valuation has grown by nearly 80% over the past five years to \$1.4 billion. The city is not dependent on any of its principal property taxpayers.

**Ratings Detail** (As Of October 17, 2007)

<b>Ratings Detail</b> (As Of October 17, 2007) (cont.)		
Hoover GO warrants (XLCAP)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
Hoover GO (MBIA)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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