

Hoover, Alabama; Tax Secured, General Obligation

Primary Credit Analyst:

Theodore Chapman, Dallas (1) 214-871-1401; theodore_chapman@standardandpoors.com

Secondary Credit Analyst:

Sussan Corson, New York (1) 212-438-2014; sussan_corson@standardandpoors.com

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Credit Profile	
US\$31.14 mil GO warrants ser 2004 dtd 12/01/2004 due 03/01/2017 Sale date: 02-DEC-2004	AA
AFFIRMED	
\$34.795 mil. Hoover GO	AA
\$78.330 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 2004 GO warrants.

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

The rating continues 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 its series 1995 and 2000A 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 currently 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 levels are 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 central highways. The property tax base has also experienced strong growth of more than 9% annually

over the past five years; the tax base reached an assessed valuation (AV) of \$1.2 billion in fiscal 2004, corresponding to a more than \$6.0 billion estimated market value. At the same time, the tax base is very diverse: The 10 leading taxpayers account for just 4% of AV.

Hoover's revenue stream is highly dependent on sales and use taxes, which accounted for about 74% of 2003 total general government revenues; Riverchase Galleria generated the largest share of sales and use tax revenues. The city has a policy of transferring 16% 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. A 1.5% increase will be budgeted 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, city officials routinely transfer money into the library and park-and-recreation component units from the general fund to accommodate operating deficiencies. Despite the transfers, the city's financial performance has been historically sound. The city reported a \$26.8 million unreserved, undesignated general fund balance for fiscal 2003; and management is projecting to post a roughly \$600,000 surplus in fiscal 2004. Management expects the 2005 budget to be balanced once approved. Although the city's fiscal year ends on Sept. 30, it is currently working from a 90-day continuing resolution. The 2005 budget adoption was intentionally deferred due to a transition in elected officials, but management predicts it will be approved before the end of calendar 2004.

The city's direct debt is low and accounts for about 2% of market value, or less than \$2,000 per capita; overall net debt, including overlapping debt from the school system, pushes that to roughly \$4,000 per capita, or a moderate 5% of market value. City officials will fund the majority of the five-year capital plan with annual revenues and roughly \$11.6 million of various reserves and surpluses previously set aside for exactly that purpose. Currently, 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 large general fund balances, mitigating the risk inherent in its dependence on sales tax revenues.

Economy

Hoover is in the Birmingham MSA, about 10 miles south of downtown Birmingham. Hoover has grown into the state's sixth-largest city, and it has become a significantly large employment center in the MSA. The city's favorable location on U.S. highways 31 and 280, State Highway 150, and interstate highways 65 and 459 has fueled ongoing commercial expansion, bringing total AV to roughly \$1.26 billion in 2004. Income levels are high: Per capita effective buying income levels are at 155% of the MSA's level and 164% of the nation's level. Historically, unemployment has been very low due to the stable presence of large service and financial sector employers and the local school district. The sluggish economy and industry consolidations have led to banking sector layoffs in the MSA in 2003 and 2004 of several thousand positions, tempering the city's low unemployment rates.

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