

## Hoover, Alabama; Tax Secured, General Obligation

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\$81.3 mil muni debt muni issue due 2022	AA	
Sale date: 27-NOV-2002		
UPGRADED	To	From
\$84.853 mil. Hoover	AA	AA-
OUTLOOK:	STABLE	

## Rationale

The upgrade on Hoover, Ala.'s GO debt to 'AA' is based on the city's strong economic development, which continues to diversify the tax base. In addition, the rating on the series 2002 GO warrants reflects 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
- Moderate to high overall debt levels.

The city's full faith and credit pledge secures the warrants.

Hoover is a rapidly growing community bordering Birmingham, Ala. and is centrally located near U.S. highways 280 and 31 and State Highway 150. The city's population grew 58% between 1990 and 2000 and is estimated at nearly 65,000 in 2002. 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% in the past 10 years, which is well below national averages. Wealth and income levels are strong with median household effective buying income at 192% and 157% of state and national averages, respectively.

Hoover remains the state's retail hub with a strong and growing retail base as evidenced by per capita retail sales at 181% of the state's level and 142% 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 tax base has also experienced strong growth of more than 9% per year over the past five years and reached an assessed valuation (AV) of \$1 billion, corresponding to an estimated market value of more than \$6 billion in fiscal 2002. At the same time, the property tax base is very diverse with the 10 leading taxpayers accounting for only 4% of AV.

Hoover's revenue stream is highly dependent on sales and use taxes for about 68% of its total revenues. Sales tax revenues from Riverchase Galleria account for a concentrated 30% of total city revenues. The city has a policy to transfer 16% of sales tax revenues received to the school system. Sales tax revenues have increased an average 3% in

the past few years and are expected to increase about 10% in 2003 due to new retail development, including the opening of Patton Creek's 500,000 square-foot retail facility across the street from Riverchase Galleria. In addition, Hoover routinely transfers money from the general fund to accommodate operating deficiencies in its library and park-and-recreation component units. Despite the transfers, financial performance has been historically sound. The city had a \$21 million general fund balance, or 40% of expenditures, at fiscal year-end 2001. The unreserved general fund balance accounts for \$20 million, or 37% of expenditures. Unaudited 2002 results indicate an increase in the general fund balance to \$24 million, or almost 50% of expenditures. The city projects break-even operations in the 2003 budget to maintain a level fund balance. Additional retail development includes a Toyota Motor Corp. dealership, Publix Super Markets Inc., Wal-Mart Stores Inc., Steinmart, and Academy Sports.

Although the city's direct debt is low and accounts for about 2.0% of market value, or \$2,000 per capita, overall net debt, including overlapping debt from the school system, is a high \$4,022 per capita and a moderate 5.5% of market value. The city will fund the majority of its five-year capital plan with this issuance and cash. Proceeds of this issuance will be used primarily to refund about \$40 million of debt outstanding, finance street projects, and fund the construction of a new municipal operations center and jail. Management does not expect the need to issue additional debt in the next five years.

## Outlook

The stable outlook reflects the expectation that economic development will continue to grow and diversify the tax base and that the city will continue to maintain large general fund balances, mitigating the risk inherent in sales tax revenue dependence.

## Economy

Hoover is in the Birmingham MSA, about 10 miles south of downtown Birmingham. The city has grown into the sixth-largest city in the state and has become such a large employment center in the MSA that the U.S. Census Bureau has proposed to change the MSA's name to the Birmingham-Hoover MSA in 2003. The city's favorable location on U.S. highways 31, 150, and 280, as well as interstate highways 65 and 459, has fueled ongoing commercial expansion, bringing the total AV to about \$1 billion in 2002. Income levels are high with per capita effective buying income at 196% and 167% of state and national levels, respectively. Estimated market value of \$90,000 per capita also indicates high wealth levels. Historically, unemployment has been very low due to the stable presence of the primary employers Blue Cross/Blue Shield, AmSouth Bank, and the school district. AmSouth Bank is currently planning expansions to include a new facility, which is estimated to add 3,000 new jobs in the area.

Hoover recently annexed more than 1,500 acres in Shannon Valley as part of a joint effort with the Retirement System of Alabama and the developer to construct a golf-course community with new home prices expected to range between \$250,000 and \$2 million. The golf course is expected to rival Greystone's course, which hosts an annual Professional Golf Association tournament. The city will use a portion of these proceeds to fund the construction of a conference center and parkway for the Shannon Valley development.

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