

CREDIT OPINION

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New Issue

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Hoover (City of), AL

New Issue - Moody's Assigns Aa1 to City of Hoover, AL's \$65.6M GOLT Warrants, Series 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the City of Hoover, AL's \$65.57 million General Obligation Warrants, Series 2016. Concurrently, Moody's has affirmed the Aa1 rating on the city's outstanding parity General Obligation debt and the Aa1 issuer rating.

The Aa1 GOLT rating reflects the city's solid financial position and prudent fiscal management, stable tax base with above-average wealth levels and manageable debt burden. The Aa1 Issuer rating reflects our assessment of the city's implicit unlimited general obligation credit strength. There is no debt for this security outstanding.

Credit Strengths

- » Stable financial position and conservative budget management
- » Large, wealthy tax base with a sizeable retail and commercial presence

Credit Challenges

- » Heavy reliance on economically sensitive sales and use taxes
- » Moderate increase in debt levels

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

- » Formalized General Fund balance policies
- » Diversification of major revenue streams
- » Sustained tax base growth
- » Decreased debt burden

Factors that Could Lead to a Downgrade

- » Decreases in overall financial position, including General Fund balance
- » Significant increases in debt burden

» Deterioration of size and quality of the local tax base

Key Indicators

Exhibit 1

Hoover (City of) AL	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 10,971,280	\$ 10,943,326	\$ 10,806,725	\$ 11,062,700	\$ 11,270,398
Full Value Per Capita	\$ 131,159	\$ 129,461	\$ 126,767	\$ 128,271	\$ 129,354
Median Family Income (% of US Median)	149.4%	152.3%	152.3%	152.3%	152.3%
Finances					
Operating Revenue (\$000)	\$ 92,085	\$ 96,969	\$ 96,454	\$ 107,181	\$ 109,927
Fund Balance as a % of Revenues	44.7%	44.6%	47.1%	46.2%	48.9%
Cash Balance as a % of Revenues	30.8%	30.3%	32.4%	28.2%	28.2%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 108,525	\$ 101,850	\$ 96,620	\$ 88,940	\$ 81,180
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	0.8x	0.7x
Net Direct Debt / Full Value (%)	1.0%	0.9%	0.9%	0.8%	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.1x	1.3x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.0%	1.2%	1.2%	1.2%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Growth Continues In Wealthy Birmingham Suburb

The city's tax base is expected to remain stable over the medium term given continued ongoing residential and commercial development. The city straddles [Jefferson County](#) (Baa3 stable) and [Shelby County](#) (Aaa) and is a major residential and retail hub within the growing Birmingham-Hoover Metropolitan Statistical Area. The city serves as a suburban base for higher income commuters to the [City of Birmingham](#) (Aa2 stable), but also has its own diverse employment base that includes Regions Bank, BlueCross/Blue Shield of Alabama, and Bell South Telecommunications in addition to a large retail base. Unemployment has historically been below that of the state and nation, and stands at 4.4% (March 2016) compared to national and state levels of 5.1% and 6.2%, respectively.

The city is home to a plethora of retail outlets, most notably the high-end Riverchase Galleria, which is in the process of completing a \$121 million redevelopment project including a 187,000 square foot additional to house the Von Maur department store. Hoover is also home to several highly-rated golf courses which have hosted PGA Tournament events. The city's full valuation has grown by an average 0.3% per year since 2011, to \$11.3 billion, and full value per capita was a high \$129,354 in 2015. Wealth levels are above both state and national averages, with per capita income of \$38,802 (135.9% of nation and 162.1% of state) and median family income of \$99,072 (151.4% of nation and 181% of state). The growth in the city will continue as the city attracts people from around the state to the high quality schools and solid employment base.

Financial Operations and Reserves: Financial Position Remains Solid

The city's financial position will remain strong going forward given management's successful track record of conservative budgeting that has resulted in year over year increases in General Fund balance and Capital Project Fund reserves. The city has generated eleven consecutive General Fund surpluses which have increased General Fund balance to \$31.9 million or a solid 24.1% of fiscal 2015 General Fund revenues. Fiscal 2015 ended with a \$100,000 increase in General Fund reserves (after transfers out of the General Fund) primarily driven by conservative budgeting estimates and continued strong performance of sales tax revenues. The city transferred \$16.6 million to the Capital Projects Fund in fiscal 2015, increasing its balance to \$39.9 million. The Capital Projects Fund is used to finance various capital projects, however unencumbered monies within this fund are accessible for General Fund operations if needed and provide additional financial flexibility. Sales tax revenues are the city's single largest revenue source, making up approximately 63% of total

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General Fund revenues in fiscal 2015. While this revenue is more economically sensitive, it is important to note that, in [Alabama](#) (Aa1 stable), sales taxes are on all purchased items, including food.

The fiscal 2016 budget included \$68.4 million in sales tax revenues, \$10.4 million in property tax revenues and \$1.8 million in local lodging tax revenues. Given the continued strength of major city revenues and management's conservative budgeting practices, officials anticipate that the General Fund will finish fiscal 2016 with another \$100,000 increase in reserves. This will be net of a transfer to the Capital Projects Fund of approximately \$10 million. Estimated total General Fund balance in fiscal 2016 is \$32 million.

The city has an informal General Fund balance target of maintaining three months of annual expenses in reserve.

LIQUIDITY

The General Fund net cash position at the end of fiscal 2015 was a solid \$31 million (23.5% of annual revenues) and is expected to be comparable in fiscal 2016. Cash levels will continue to be more than sufficient to support the city's annual operations.

Debt and Pensions: Debt Rises With Current Issue But Remains Manageable

The city's debt burden will remain manageable over the near term given ongoing tax base expansion and rapid amortization of debt. After the current issue, the city's direct debt burden will rise to 1.2% of full value. When including overlapping debt of local municipalities, the city's overall debt burden is 3.4% of full value. Amortization of principal is below average with 53.2% of principal retired within ten year. Debt service as a percentage of expenditures is also manageable at 8.2%. The city does not anticipate any substantial new money debt over the next few years, so provided tax base values stay at current levels (at a minimum), debt levels will gradually decline.

DEBT STRUCTURE

The city's debt statement is made up 100% of fixed rate securities.

DEBT-RELATED DERIVATIVES

The city is not currently party to any derivative agreements.

PENSIONS AND OPEB

The city participates in the Employees' Retirement System of Alabama, a multiple-employer defined benefit plan administered by the state. Pension payments for fiscal 2015 totaled \$4.6 million or 4.2% of operating expenditures. The payment constituted 100% of the annual pension cost. The city's adjusted pension liability, under Moody's methodology for adjusting reported pension data, is \$140 million or an average 1.27 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. We determined the city's share of liability for the state-run plans in proportion to its contributions to the plans.

The city also provides Other Post-Employment Benefits (OPEB) on a pay-as-you-go basis. The annual OPEB cost in fiscal 2015 was \$570,982, of which the city contributed 66.3%. The annual OPEB costs represents 0.52% of annual operating expenditures.

Management and Governance

Alabama cities have an institutional framework score of "Aa," or strong. Sales taxes account for a sizeable portion of a city's revenues, and these revenues have proven moderately predictable even during recessionary times, because the tax base includes food and other consumer essentials. Cities have a moderate ability to raise property taxes up to 5 mills and can increase sales taxes without limit. Expenditures are highly predictable and, without unions, cities have strong ability to reduce expenditures. Cities additionally benefit from manageable fixed costs.

Legal Security

The Series 2016 Warrants constitute direct general obligations of the city, for the prompt payment of the principal of and interest on which the full faith and credit is irrevocably pledged.

Use of Proceeds

Proceeds from the Series 2016 Warrants will be used to construct a mega-sports complex to be located on 120 acres near the Hoover Metropolitan Stadium. The complex will include multiple outdoor soccer, lacrosse, football, baseball and softball fields, tennis courts and a 140,000 square foot events center.

Obligor Profile

The City of Hoover is a Birmingham suburb, located partially in Jefferson and Shelby Counties. The city has a current population of approximately 82,000.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Hoover (City of) AL

Issue	Rating
General Obligation Warrants, Series 2016	Aa1
Rating Type	Underlying LT
Sale Amount	\$65,570,000
Expected Sale Date	06/20/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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