

RatingsDirect®

Summary:

Hoover, Alabama; General Obligation

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Credit Profile

US\$65.57 mil GO warrants ser 2016 due 07/01/2036

Long Term Rating AAA/Stable New

Hoover GO

Long Term Rating AAA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Hoover, Ala.'s series 2016 general obligation (GO) warrants. At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's existing GO debt. The outlook on all ratings is stable.

The bonds constitute general obligations of the city for the payment of which the full faith, credit, and taxing power of Hoover are irrevocably pledged. The property tax pledge in Alabama is limited; the state has statutory tax limitations that include levies for debt service. Although technically a limited tax, our analysis focused on the strength of the full faith and credit pledge, which we view of equal credit quality as an unlimited tax general obligation. We understand that officials will use warrant proceeds to fund the construction of a major sports complex.

Hoover's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. local governments are considered to have moderate sensitivity to country risk. The city's general obligation pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Hoover has considerable financial flexibility, as demonstrated by the very high fund general balance as a percentage of expenditures, as well as very strong liquidity.

The rating is based on our opinion of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 59% of operating expenditures;
- Very strong liquidity, with total government available cash at 57.5% of total governmental fund expenditures and 6.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 8.3% of expenditures and net

direct debt that is 107.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and

- Strong institutional framework score.

Very strong economy

We consider Hoover's economy very strong. The city, with an estimated population of 83,273, is located in Jefferson and Shelby counties in the Birmingham-Hoover, Ala. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 126% of the national level and per capita market value of \$148,948. Overall, the city's market value grew by 2.1% over the past year to \$12.4 billion in 2016. The weight-averaged unemployment rate of the counties was 5.3% in 2015.

Hoover, 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. Residents benefit from participation in both the broad and diverse Birmingham-Hoover MSA. Top local city employers span a variety of sectors and include Regions Bank, Blue Cross Blue Shield, BellSouth, and DST Health Solutions. Officials report that both commercial and residential development, with more than 2,400 approved single-family lots and the potential for roughly 8,000 more over the next few years.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key management practices include regular monitoring and reporting of budgeted-to-actuals 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. Officials use the reserve policy to protect against potential economic swings that could reduce local revenues. Officials also have informal multi-year operational financial forecasts that are used to shape the budgetary discussion annually. Officials have no debt management policy that goes beyond current strict state issuance statutes.

Strong budgetary performance

Hoover's budgetary performance is strong in our opinion. The city had operating surpluses of 1.8% of expenditures in the general fund and of 9.4% across all governmental funds in fiscal 2015.

The city continues to exhibit a strong budgetary performance. Officials are projecting to end fiscal 2016 with roughly breakeven operations, net transfers, and similar results for fiscal 2017, based on preliminary pro formas. Due to the prominence of Hoover's retail sector, sales and use taxes account for a large 71% of all general fund revenues. Merchandise retail, a level that has been stable over time, generates roughly 70% of sales tax revenues.

Very strong budgetary flexibility

Hoover's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 59% of operating expenditures, or \$54.2 million. We expect the available fund balance to remain above 50% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes

\$31.7 million (34.6% of expenditures) in the general fund and \$22.5 million (24% of expenditures) that is outside the general fund but legally available for operations.

The city has historically maintained very strong budgetary flexibility. Officials are projecting that available general fund balance reserves will be more than 35% of operations at fiscal 2016 as well as for fiscal 2017. Fiscal 2015 audited available reserves include roughly \$22 million that is available in the capital projects fund for any legal purpose. By city policy, all general fund revenue in excess of \$100,000 is transferred to the capital projects fund to be used for capital projects and also serve as added financial flexibility outside of the general fund; the \$22 million stated here is net of funds allocated for capital projects and is unencumbered.

Very strong liquidity

In our opinion, Hoover's liquidity is very strong, with total government available cash at 57.5% of total governmental fund expenditures and 6.9x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

Hoover has demonstrated an ability to access the capital markets by issuing GO debt and utility debt, and various other debt instruments. The city's investments are liquid, with maturities less than 365 days and in U.S. treasuries and state pools as part of the Security Alabama Funds Enhancement Act Program, which serve as collateral for all members. We expect the city's liquidity profile to remain very strong. Hoover has no variable debt or swaps in its debt portfolio.

Adequate debt and contingent liability profile

In our view, Hoover's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.3% of total governmental fund expenditures, and net direct debt is 107.2% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor. Officials have no plans to issue additional debt in the near term.

Hoover's combined required pension and actual other postemployment benefits contributions totaled 4.6% of total governmental fund expenditures in 2015. The city made its full annual required pension contribution in 2015.

The city provides pension benefits to retirees through the Employees' Retirement System of Alabama, a multiple-employer pension benefit plan.

Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement (GASB) No. 67, the city's net pension liability was measured as of Dec. 31, 2014, and was \$46.1 million. The state pension plan maintained a funded level of 74.5%, using the plan's fiduciary net position as a percent of the total pension liability. For additional details on GASB 67 and 68, see our report "Incorporating GASB 67 And 68: Evaluating Pension#?#OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria," published Sept. 2, 2015, on RatingsDirect. The city also provides health care benefits to retirees, which it pays for on a pay-as-you-go basis.

Strong institutional framework

The institutional framework score for Alabama cities and towns is strong.

Outlook

The stable outlook reflects our belief that Hoover will maintain very strong budgetary flexibility and improve on liquidity in the two-year outlook horizon. We believe that management will make the budgetary adjustments it considers necessary to maintain structural balance. Given that most of the city's revenues are economically sensitive with cyclical sales tax revenues, if budgetary performance were to worsen, leading to a significant draw on reserves, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- 2015 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of June 22, 2016)

Hoover GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Hoover GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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