

RatingsDirect®

Summary:

Hoover, Alabama; General Obligation

Primary Credit Analyst:

Edward R McGlade, New York (1) 212-438-2061; edward.mcglade@standardandpoors.com

Secondary Contact:

Brian J Marshall, Dallas (1) 214-871-1414; brian.marshall@standardandpoors.com

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Summary:

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Credit Profile

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

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Hoover, Ala.'s general obligation (GO) warrants to 'AAA' from 'AA+'. The outlook is stable. The upgrade reflect the city's conservative management and the application of Standard & Poor's local GO criteria released Sept. 12, 2013.

Hoover's GO warrants are backed by the city's full faith and credit pledge.

The 'AAA' rating reflects our assessment of the following factors for the city:

- Hoover's local economy is very strong, in our view, with projected per capita effective buying income at 131.7% of the national average and per capita market value at about \$137,553. Hoover, with an estimated population of 85,000, 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. We believe residents benefit from participation in both the broad and diverse Birmingham-Hoover metropolitan statistical area. According to the Bureau of Labor Statistics, the Jefferson County unemployment rate was 5.5% in 2013.
- We believe Hoover's budgetary flexibility is very strong, with available reserves at \$31.4 million, or 35.5% of operating expenditures, in fiscal 2013 (ended Sept. 30). The budget for 2014 is balanced without the use of any reserves. Based on the city's projections, we believe Hoover will maintain available reserves at more than 30% during the next two years.
- In our opinion, very strong liquidity supports Hoover's finances, with total government available cash to governmental funds expenditures at 88.4% and cash to debt service at 982x. Based on past issuance of debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.
- In our view, Hoover's budgetary performance is strong overall. The city ended 2013 with a \$4.0 million general fund surplus. The expectation is that it will produce small surpluses so that it can maintain its reserve levels.
- Hoover's management conditions are strong, in our opinion, with "good" financial practices under our financial management assessment (FMA) methodology, indicating our view that the government maintains adequate policies in some but not all key areas. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, and strong oversight in terms of monitoring progress against the budget

during the year. Also, the city has a formal reserve policy of 30% of annual expenditures.

- Hoover's debt and contingent liability profile is strong, in our view. Total governmental fund debt service is 9% of total governmental funds expenditures and net direct debt is 66.2% of total governmental funds revenue. Approximately 72.1% of the debt is scheduled to be repaid within 10 years, which we consider rapid. Overall net debt was an estimated 2.9% of market value in 2014. In fiscal 2013, the city participated in the Alabama Employees Retirement System. Contributions for fiscal 2013 represent a minimal 3.9% of total governmental funds expenditures. The plan is more than 67% funded. The city does offer other postemployment benefits, which are currently being handled on a pay-as-you-go basis. For fiscal 2013, the total cost was 0.1% of operating expenditures.
- We consider the Institutional Framework score for Alabama municipalities to be strong. (See "Institutional Framework Overview: Alabama Local Governments," Sept. 12, 2013.)

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 deems necessary to maintain structural balance. Given that most of the city's revenues are economically sensitive, 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: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Alabama Local Governments, Sept. 12, 2013

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