

# RatingsDirect®

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## Summary:

# Tuscaloosa, Alabama; General Obligation

### **Primary Credit Analyst:**

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

### **Secondary Contact:**

Scott W Sagen, New York (1) 212-438-0272; scott.sagen@standardandpoors.com

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## Summary:

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### Credit Profile

US\$24.23 mil GO rfdg warrants ser 2014-B dtd 08/01/2014 due 07/01/2039

*Long Term Rating* AA+/Stable New

US\$22.32 mil taxable GO rfdg warrants ser 2014-A dtd 07/01/2014 due 01/01/2020

*Long Term Rating* AA+/Stable New

## Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Tuscaloosa, Ala.'s series 2014A and 2014B general obligation (GO) warrants based on the application of our local GO criteria released Sept. 12, 2013. At the same time, we affirmed our 'AA+' long-term rating and underlying rating (SPUR) on the city's previously issued GO debt. The outlook is stable.

The rating also reflects our view of the city's:

- Strong economy, anchored by the University of Alabama;
- Strong management;
- Strong budgetary flexibility;
- Very strong liquidity; and
- Strong debt and contingent liability profile.

### Strong economy

Tuscaloosa's local economy is, in our opinion, strong with per capita market value at roughly \$78,900 and projected per capita effective buying income at 83% of the national average, both of which are depressed by the large student population at the University of Alabama. We view the metropolitan statistical area as having a broad and diverse economy that is stabilized by the presence of the University of Alabama as well as by employment opportunities across the automotive industry and service sector. The Tuscaloosa County unemployment rate for 2013 was 5.8%, according to the U.S. Bureau of Labor Statistics.

### Strong management

We consider Tuscaloosa's management conditions strong, with "good" financial practices under our financial management assessment (FMA) methodology. An FMA of "good" indicates our view that practices are good but not comprehensive. The government maintains many best practices that we deem critical to supporting credit quality, particularly within the finance department. These practices, however, may not be institutionalized or formalized in policy, may lack detail or long-term elements, or may have little recognition by decision makers outside of the finance department.

Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and a long-term capital

plan.

### **Strong budgetary flexibility**

In our view, Tuscaloosa's budgetary flexibility is strong with available reserves at 10% of operating expenditures in fiscal 2013. Officials are projecting that the available general fund balance will increase to \$15.4 million, or 11.8% of operations, following better-than-budgeted revenue receipts.

### **Very strong liquidity**

In our opinion, very strong liquidity supports Tuscaloosa's finances, with total government available cash at 33% of government fund expenditures and cash to debt service at 5.8x. Based on frequency and type of past debt issuances, we believe that the issuer has exceptional access to capital markets to provide for liquidity needs if necessary.

### **Strong budgetary performance**

Tuscaloosa's budgetary performance is, in our opinion, strong overall, with surpluses of 5.7% for the general fund and 1.4% for the total governmental funds in fiscal 2013. Based on current-year and subsequent-year projections, we believe that the issuers' finances will deteriorate. Officials are projecting close to break-even operations in the general fund for fiscal 2014.

### **Strong debt and contingent liabilities**

In our opinion, Tuscaloosa's debt and contingent liability profile is strong. Net direct debt is 72.7% of total governmental funds revenue and total governmental funds debt service is 5.7% of total governmental funds expenditures. We consider the net debt to market value low and a positive credit factor at 1.4%. Last year Tuscaloosa fulfilled 106% of its annual required pension contribution. The annual pension and other postemployment benefit costs accounted for 4% of the total government expenditures in fiscal 2013.

### **Strong institutional framework**

We consider the Institutional Framework score for Alabama cities and towns strong.

## **Outlook**

The stable outlook reflects our view that the city's budgetary flexibility profile will likely remain strong. We do not anticipate changing the rating in the next two years given the city's very strong liquidity. The city's strong economy and participation in a broad and diverse metropolitan area enhances stability. Should reserves improve significantly and be maintained, in concert with robust economic growth, we would consider a higher rating. Should the city's budgetary performance yield results out of line with historical levels, 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

Ratings Detail (As Of July 21, 2014)		
Tuscaloosa GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Tuscaloosa GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
<b>Tuscaloosa GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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