MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to Tuscaloosa, AL's $46.5M GO Warrants, Series 2014-A and Series 2014-B

Global Credit Research - 15 Jul 2014

Affirms Aa1 affecting $170.2M of outstanding GOLT debt

TUSCALOOSA (CITY OF) AL
Cities (including Towns, Villages and Townships)
AL

Moody's Rating

ISSUE		RATING
General Obligation Warrants, Series 2014-A		Aa1
Sale Amount	$24,230,000	
Expected Sale Date	07/22/14	
Rating Description	General Obligation Limited Tax	
Taxable General Obligation Warrants, Series 2014-B		Aa1
Sale Amount	$22,320,000	
Expected Sale Date	07/22/14	
Rating Description	General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, July 15, 2014 --Moody's Investors Service has assigned a Aa1 rating to the City of Tuscaloosa's (AL) $24.2 million General Obligation Warrants, Series 2014-A and $22.3 million Taxable General Obligation Warrants, Series 2014-B. The warrants are secured by the city's general obligation, limited ad valorem tax pledge. Concurrently, Moody's has affirmed the Aa1 Issuer Rating and a Aa1 rating on the city's $170.2 million in outstanding parity debt.

The majority of proceeds from the Series 2014-A warrants will fund various capital projects including park improvements, an expansion at Bryant Conference Center, road and street improvements, capital equipment, and computer systems. The remainder of the Series 2014-A warrants will refund a portion of the Series 2006-A and Series 2007-A Warrants for an estimated net present value savings of $442,960, or 3.8% of refunded principal, with no extension of maturity. The Series 2014-B Warrants will refund a portion of the Series 2006-A Warrants for an estimated net present value savings of $627,829, or 3.1% of refunded principal, with no extension of maturity.

SUMMARY RATINGS RATIONALE

The Aa1 rating reflects the city's sizable tax base that is stabilized by the presence of University of Alabama, healthy reserve levels, and manageable debt burden.

STRENGTHS

- Diversified and growing tax base, including the presence of the University of Alabama

- Healthy reserve levels

CHALLENGES

- Below-average wealth levels that are suppressed by sizable student population

- Tax base damage as a result of April 2011 tornado

DETAILED CREDIT DISCUSSION

HEALTHY FINANCIAL POSITION DESPITE SIGNIFICANT DAMAGE FROM APRIL 2011 TORNADO; SURPLUS OPERATIONS PROJECTED FOR FISCAL 2014

The city's financial position is expected to remain healthy over the near term given strong management practices including conservative budgeting and a record of solid combined reserve levels. On April 27, 2011, the city was hit by an EF-4 tornado that caused approximately $42 million in damage to city buildings and property, as well as destroyed 5,362 homes. Tuscaloosa County was declared a national disaster area, which allowed the city to become eligible for federal disaster aid. FEMA paid debris removal costs directly to the U.S. Army Corps of Engineers and reimbursed the costs of eligible city repairs that were not covered by insurance through its Public Assistance program. Overall, the cost share allocation for damage reimbursement was 90% FEMA, 5% by the state, and 5% from the city. The city's net share of costs totaled $1.3 million for debris removal and $4.6 million for building and property damage. To date, the city has received all state and federal reimbursements, except for $3.7 million still owed by FEMA. The timeframe for the remaining reimbursement is unclear.

Despite the considerable damage caused by the April 2011 tornado, the city has been able to increase reserves to $15.4 million (10.9% of General Fund revenues) in fiscal 2013 from $13.7 million (12.9% of General Fund revenues) in fiscal 2009. Management attributes the city's positive performance to conservative budgeting, as well as an overall strengthening of revenues as the economy begins to rebound. Sales taxes and property taxes fared particularly well in this period, partly due to economic activity generated from rebuilding after the tornado. In addition to General Fund reserves, the city also maintains a healthy balance in its Capital Projects Fund, which totaled $19.0 million at fiscal year-end 2013. Approximately 45.8% of those funds are committed for near-term capital projects. Given that reserves have been built up by annual transfers from the General Fund, the remaining reserves ($10.3 million) could be available for General Fund use with a vote of the council. When looking at combined reserves (General Fund and Assigned Capital Projects Fund), available reserves totaled $23.8 million or a satisfactory 16.8% of General Fund revenues.

The fiscal 2014 budget represents a 6.9% increase from the fiscal 2013 budget and does not include any appropriation of fund balance. The budget-to-budget increase is reflective of higher salary and debt service costs. Based on year-to-date results, the city expects to end fiscal 2014 with a small surplus. While revenues are tracking very close to budget despite underperformance of sales taxes, expenditures are under budget due to conservative estimates and the implementation of a hiring freeze in June 2014 for all non-public safety personnel.

TAX BASE CONTINUES TO SEE GROWTH; ECONOMY ANCHORED BY UNIVERSITY OF ALABAMA

The city's sizable $7.5 billion tax base will continue to benefit from the stabilizing presence of the University of Alabama (rated Aa2 stable) and the city's role as the economic center of an eight-county area of western Alabama. The University of Alabama provides overall economic stability as the state's flagship public university with 34,852 full time students and approximately 8,000 employees. The University is on track to expand its current student population to 40,000 over the medium-term. The University's football program is especially profitable for the city, with each home game producing between $15 and $17 million in sales tax and other city revenues. Recent capital improvements at the university include the construction of new residence halls and a recreation center, as well as the construction of a $23.5 million National Water Center funded by the National Oceanic and Atmospheric Administration.

Another stabilizing factor is the city's second largest employer, DCH Health Care Authority (rated A2 stable), a not-for-profit health system with approximately 3,490 workers. Over the last several years the system completed multiple projects, including the construction of a $40 million cancer treatment center and a $2.7 million expansion of the cardiology facility. Daimler AG (Senior Unsecured rated A3 stable) is the city's third largest employer, with its only U.S. Mercedes-Benz auto manufacturing plant located adjacent to the city limits. The plant is more than 3 million square feet in size and includes an expanded body shop, two paint shops and two assembly shops. Management stated that the plant employs approximately 3,000 full time workers and currently produces four vehicle lines (C-Class, M-Class, R-Class & GL-Class). A $255 million plant expansion is under way for a new line of SUV coupe; production is expected to begin in 2015 at which time projected employment levels should reach 4,000.

Residential development within the city continues to improve with residential permits totaling 1,026 in 2013 (11.2%

increase from 2012), with a value of approximately $133.3 million. Retail and commercial development is also continuing, especially in the downtown area. Assessed value growth has averaged 3.7% over the last five years (2008-2013), inclusive of a 3.5% increase in fiscal 2013. Going forward, the city expects modest growth will continue. Wealth levels approximate state medians, but remain below the national medians and are understated because of the city's large student population. Per capita income of $20,753 is 91.2% of AL and 77% of US and median family income of $50,061 is 95.6% of AL and 80.6% of US. Full value per capita is average at $80,636, compared to state (103.9%) and national (90.2%) medians, but does not include substantial assets of the University.

DEBT BURDEN REMAINS MANAGEABLE

The city's debt burden is expected to remain manageable over the medium term given an absence of additional debt plans and projected ongoing tax base growth. The city's direct debt burden is below average at 1.2% of full valuation and increases to a still favorable 1.4% when taking into consideration the overlapping debt of local municipalities. The city's outstanding principal of $193.9 million, includes $8.7 million in unrated state loans and $94.2 million in water and sewer debt, both of which Moody's considers self-supporting and are therefore not included in the debt burden calculation. While the city maintains a 5-year Capital Improvement Plan, there are no plans to issue additional debt over the next five years. Amortization is below-average at 57.3% of principal repaid within ten years and debt service represented a manageable 8.7% of operating expenditures in fiscal 2013. The city does not have any variable rate debt and is not party to any derivative agreements.

The city contributes to four retirement plans including the Employees' Retirement System of Alabama (ERS), the Police Officers and Firefighters Retirement Plan (PFFRP), the Police Officers and Firefighters Supplemental Retirement Plan (PFFSRP), and the Met Life Retirement and Savings Plan (MLRSP). In fiscal 2013, the Annual Required Contribution (ARC) for ERS was $2.0 million (1.4% of operating expenditures), $4.0 million (2.8% of operating expenditures) for PFFRP, $67,000 (0.05% of operating expenditures) for PFFSRP, and $130,523 (0.09% of operating expenditures) for MLRSP. The city funded 100% of the ARC for all four plans. The city's adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, is $215.6 million, or an above-average 1.70 times operating revenues. Moody's ANPL reflects certain adjustments we make 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.

The city also provides Other Post-Employment Benefits (OPEB) to its employees. The OPEB ARC in fiscal 2013 totaled $1.4 million (1.0% of operating expenditures), towards which the city contributed 30.5% ($415,325 or 0.3% of operating expenditures). Overall, total fixed costs, including debt service annual pension costs, and annual OPEB costs summed to moderate 13.3% of fiscal 2013 operating expenditures.

WHAT COULD MAKE THE RATING GO UP:

- Increase in General Fund reserves

- Sizeable tax base expansion

WHAT COULD MAKE THE RATING GO DOWN:

-Decrease in General Fund reserves

-Significant decline in tax base

-Increase in debt burden

KEY STATISTICS

2013 Tax Base Size - Full Value (in 000s): $7,527,896

2013 Full Value Per Capita: $80,636

2010 Median Family Income as % of US median: 80.60%

2012 Fund Balance as % of Revenues: 10.08%

Five-Year Dollar Change in Fund Balance as % of Revenues: -1.52%

2012 Cash Balance as % of Revenues: 9.59%

Five-Year Dollar Change in Cash Balance as % of Revenues: 0.62%

Institutional Framework: Aa

Operating History - Five-Year Average of Operating Revenues/ Operating Expenditures: 0.98x

Net Direct Debt/Full Value: 1.21%

Net Direct Debt/Operating Revenues: 0.68x

Three-Year Average of Moody's Adjusted Net Pension Liability/Full Value: 2.30%

Three-Year Average of Moody's Adjusted Net Pension Liability/Operating Revenues: 1.33x

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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