MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 rating to the city of Tuscaloosa's (AL) $37.8 million General Obligation Warrants, Series 2012-B

Global Credit Research - 24 Oct 2012

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

Moody's Rating

ISSUE	RATING
General Obligation Warrants, Series 2012-B	Aa1

Sale Amount	$37,820,000
Expected Sale Date	11/01/12
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, October 24, 2012 --Moody's Investors Service has assigned a Aa1 rating to the City of Tuscaloosa's (AL) $37.8 million General Obligation Warrants, Series 2012-B. Moody's maintains a Aa1 Issuer Rating and a Aa1 rating on the city's $128.29 million in outstanding parity debt. Proceeds from the current issue will advance refund a portion of the city' outstanding Series 2005 Warrants for an expected net present value savings of 6.77% of refunded principal.

SUMMARY RATINGS RATIONALE

The warrants are general obligations of the city, for the payment of which the full faith and credit of the city have been irrevocably pledged. All taxes and revenues legally available to the city for the payment of the Series 2012-B Warrants may be applied to such payment. The Aa1 rating reflects the city's diversified economy, which Moody's believes will remain stable over the near term, despite sizeable tax base damage from the April 27, 2011 tornado. The rating also takes into consideration the city's strong fiscal management, marked by solid reserves and a manageable debt burden.

STRENGTHS

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

-Solid financial reserves

-Strong fiscal management and financial policies

CHALLENGES

-Modest tax payer concentration

-Tax base damage as a result of April 2011 tornado

DETAILED CREDIT DISCUSSION

CITY SUSTAINS SIGNIFICANT DAMAGE AS A RESULT OF APRIL 2011 TORNADO

On April 27, 2011, the city was hit by an EF-4 tornado which had maximum winds of 190 mph and caused approximately $42 million in damage to city buildings and property. The storm affected three major sections of the

city, destroying the Curry Building (housing the city's Environmental Services, Emergency Management and Facilities Maintenance offices), Police Athletic League building and Police Auction lot. The storm also caused damage to one fire station and minor damage to the city wastewater treatment plant. All major services in the Curry Building were relocated and operations of the wastewater treatment plant continued as normal. There was no structural damage to the University of Alabama campus, City Hall or other downtown businesses. On April 28th, Tuscaloosa County was declared a national disaster area, allowing the city to become eligible for federal disaster aid. Debris removal costs were paid by FEMA directly to the U.S. Army Corps of Engineers (FEMA and the state covered 100% of the debris removal costs for the first 30 days, 95% for the second 30 days and 87.5% thereafter). The cost of eligible repairs that are not covered by insurance will be reimbursed by FEMA through the Public Assistance program. Cost share allocations are 75% by FEMA, 12.5% by the state and 12.5% by the city. The city estimates its net share of debris removal costs at $1.29 million and of building and property damage at $4.63 million.

SOLID FINANCIAL POSITION DESPITE; SURPLUS OPERATIONS PROJECTED FOR FISCAL 2012

Moody's believes that the city's overall financial position will remain sound over the near term, given strong management practices, evidenced by conservative budgeting and the implementation of financial policies, and a track record of solid combined reserve levels. The city finished fiscal 2010 with an operating surplus of $2.88 million; however, due to a transfer out of the General Fund into the Capital Projects Fund of $2.85 million, total General Fund balance ended at $13.86 million or 12.6% of fiscal 2010 revenues. Management attributes the city's positive performance to conservative budgeting, as well as the strengthening of sales taxes, property taxes and fines and penalties. In addition to General Fund reserves, the city also maintains a healthy balance in its Capital Projects Fund, which totaled $40.67 million at fiscal year-end 2010. Approximately 60.84% ($24.75 million) of those funds are designated for near-term capital projects. Given that the reserves have been built up by annual transfers from the General Fund, the remaining reserves (a substantial $15.92 million) could be available for General Fund use with the vote of the council. When looking at combined reserves (General Fund and Undesignated Capital Projects Fund), available reserves totaled $28.72 million or a healthy 26.1% of fiscal 2010 revenues.

Despite considerable damage from the April 2011 tornados, the city ended the fiscal year with an increase in General Fund balance of $346,349. This increase in General Fund reserves is net of a $3.0 million transfer to the Capital Projects Fund, monies which are expected to be used to internally finance future pay-as-you-go projects. The city's positive performance is the result of conservative budgeting practices, improved sales tax performance and strong property tax collections. As a result of the tornado damage, the city established two special revenue funds (Storm Recovery FEMA Fund and Storm Recovery Insurance Fund) in anticipation of state, insurance and FEMA reimbursements. In order to begin to pay for storm related expenses, the city loaned $8.25 million from its Capital Projects Fund to the Storm Recovery FEMA Fund. As expenses were incurred, transfers were made to the General Fund from the Storm Recovery FEMA Fund, thereby reducing any cash flow concerns. As of June 30, 2011, the Storm Recovery FEMA Fund had a balance of $1.21 million and the Storm Recovery Insurance Fund had a balance of $7.65 million. Total General Fund balance ended the year at $14.27 million (11.3% of annual General Fund revenues) and Unassigned General Fund balance was $11.27 million (8.9% of annual General Fund revenues). When combined with approximately $20.92 million in available Capital Project Fund monies, reserves were $34.02 million or a solid 26.8% of annual revenues (not including monies in the storm related special revenue funds).

The fiscal 2012 budget included no appropriated fund balance, $31.99 million in sales tax revenues, $17.10 million in business license revenues, $12.5 million in property tax revenues and $11.93 million in county sales tax revenues. Management stated that most revenues continued to improve throughout fiscal 2012, with city sales taxes 2.22% over budget, county sales taxes 6.42% over budget and business license taxes 6.25% over budget (all numbers unaudited). Property tax revenues were reported to be approximately 3.77% under budget. Overall, city officials project that they ended fiscal 2012 with an estimated $6.0 million operating surplus, the majority of which will be transferred to the Capital Projects Fund.

The fiscal 2013 budget included no appropriated fund balance, $33.67 million in sales tax revenues, $18.1 million in business license revenues, $13.16 million in county sales tax revenue and $12.0 million in property tax revenues. Management anticipates that given its conservative budgeting practices, that the city should finish the year with another operating surplus and that the surplus funds will be transferred to the Capital Projects Fund.

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

Moody's believes that Tuscaloosa's $7.23 billion tax base will continue to benefit from the stabilizing presence of the University of Alabama (rated Aa2, stable outlook) 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 33,602 full time students and 5,689 employees. The University is on track to expand its current student population to 35,000 by 2015. The University's football program is especially profitable for the city, with each home game producing approximately $16.3 million in revenues. In 2010, the University completed the new Capstone College of Nursing building and currently has plans to build a 984 bed residence hall, at a cost of $66 million.

Another stabilizing factor is the city's second largest employer, DCH Health Systems (rated A2, stable outlook), 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, a $2.7 million expansion of the cardiology facility and the addition of two new floors of the west parking deck.

Daimler AG (Senior Unsecured rated A3, positive outlook) is the city's third largest employer, with its only U.S. Mercedes-Benz auto manufacturing plant located 13 miles from 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 three vehicle lines (M-Class, R-Class & GL-Class) with a total annual production of 174,000 units. A $289 million expansion is currently underway which will allow the plant to produce the Mercedes C-Class vehicles starting in 2014. In January 2012, Mercedes announced that it would also begin a $255 million plant expansion for a new line of SUV coupe; production is expected to begin in 2015 at which time projected employment levels should reach 4,200.

Residential development within the city continues to improve with residential permits totaling 612 in 2011, a value of approximately $69.56 million. Officials commented that while 5,362 homes were destroyed by the April 2011 tornado, they expect development to continue at a modest pace going forward. Average housing prices improved in 2012, at $190,978 (August 2012) as compared to $163,050 in 2011 and $164,500 in 2010. Days on the market have declined to 96 days in 2012, down from a peak of 146 days in 2009. Retail and commercial development is also continuing, especially in the downtown area which includes a new Amphitheater and Farmers Market. Assessed value growth has averaged 4.6% over the last five years (2005-2011), inclusive of losses experienced from the tornado in 2011. Wealth levels approximate state medians (but are understated because of the city's large student population), with per capita income at 91.6% of the state and median family income at 93.8% of the state. Full value per capita is $77,575 but does not include substantial assets of the University. Unemployment is above average at 9.9% (June 2012) compared to the state at 8.9% and the nation at 8.7%.

DEBT BURDEN REMAINS MANAGEABLE

Moody's believes that the city's debt burden will remain manageable over the medium term given a sizeable pay-go capital program and ongoing tax base growth. The city's direct debt burden is below average at 1.1% of full valuation and increases to a still favorable 1.5% when taking into consideration the overlapping debt of local municipalities. Amortization of principal is average at 54.5% of principal repaid within ten years. The city's outstanding principal of $181.64 million, includes $10.66 million in unrated loans through the Alabama state revolving fund (SRF) and $102.14 million in water and sewer debt, which Moody's considers self-supporting and is therefore not included in the debt burden calculation. The majority of the city's employees are in the main pension plan, a single-employer plan currently funded at a satisfactory 73.2%. The Police Officers and Firefighters Plan, however, is weakly funded at 46.6% as of 2010. The city has been meeting its full ARC on both plans. Future debt needs could include a $10 to $20 million issue which would finance the construction of a new fire station, improvements to various parks and recreational areas as well as ongoing development work in tornado affected areas. Moody's does not believe that the potential increase in debt burden will have a material effect on the city's overall financial stability. The city does not have any variable rate debt and is not party to any SWAP agreements.

WHAT COULD MAKE THE RATING GO UP

-Increases in General Fund reserves

-Sizeable tax base expansion

WHAT COULD MAKE THE RATING GO DOWN

-Decreases in General Fund reserves

-Significant decreases in tax base

-Increase in debt burden

KEY STATISTICS

2011 Population: 93,215

2011 Full valuation: $7.23 billion

2011 Full value per capita: $77,575

Direct debt burden: 1.1%

Overall adjusted debt burden: 1.5%

Amortization of Principal (10 years): 54.5%

FY 2011 General Fund balance: $14.27 million (11.3% of General Fund revenues)

FY 2011 Unassigned General Fund balance: $11.28 million (8.9% of General Fund revenues)

FY 2011 Available fund balance: $34.02 million (26.8% of General Fund revenues)

American Community Survey Median Family Income: 93.8% of state

American Community Survey Per Capita Income: 91.6% of state

Post-sale parity debt outstanding: $181.64 million

Rated post-sale parity debt outstanding: $165.11 million

RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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