STANDARD & POOR'S
RATINGS SERVICES

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Tuscaloosa, Alabama; General Obligation

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US$36.82 mil go warrants ser 2012-B dtd 11/01/2012 due 01/01/2035		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Tuscaloosa, Ala.'s series 2012-B general obligation (GO) warrants. 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 on all ratings is stable.

The 'AA+' rating reflects our view of the city's:

- Diverse regional economy anchored by the University of Alabama and centered on higher education, health care, and manufacturing;
- Strong financial position and performance, with a lengthy history of general fund surpluses and substantial reserves available outside the general fund; and
- Low debt levels and limited capital needs because of management's practice of using excess operating revenue for capital needs.

The city's full faith and credit secure the warrants. We understand that officials will use warrant proceeds to refund a portion of the city's series 2005 refunded warrants.

Tuscaloosa, with a population of about 93,215, is located in west central Alabama, 55 miles west of Birmingham. Continued economic development, coupled with the city's role as a major regional economy in the state, have enabled the city's population to increase by 20% since the 2000 census.

The economy is anchored by the presence of the University of Alabama and two other higher education facilities, which collectively serve nearly 40,000 students (with the university accounting for more than 33,000 in 2012). The university is in the process of a substantial expansion, which it anticipates will increase enrollment to nearly 35,000 within three years. Other leading local employers include DCH Regional Medical Center (3,490 employees) and BF Goodrich Tire Co (1,400). Just outside the city, Mercedes-Benz operates two assembly plants that collectively employ nearly 3,000. The plants have indirectly created other jobs in that local suppliers have expanded their operations to accommodate the new demand.

Major development activity includes the $73 million construction of Bryce Hospital, a $290 million expansion of a Mercedes plant to accommodate production of the C-Class in 2014 (with the plant projected to handle 20% of worldwide production), anEmbassy Suites Hotel located downtown, and a recently constructed $27 million facility for Gaylord Chemical Co., a world leader in the production of dimethyl sulfide and dimethyl sulfoxide. The latter chemical compound finds use among biologists, pharmacists, and even manufacturers of microelectronic devices. Future development involves a coal mine that management projects will bring more than 550 jobs to the area and have a $1.2 billion impact on the Tuscaloosa area economy. In addition, management projects that a major mixed-use commercial

development will break ground in fiscal 2013. Officials report that the project will be home to both big-box retail and residential development. Tuscaloosa's unemployment rate averaged 8.8% in August 2012, slightly above the state and national averages.

The city continues to serve as a retail and commercial hub for a multicounty area that extends into eastern Mississippi and has per capita retail sales that are 152% of the national average. Per capita income levels are lower as a result of the large student population and are adequate, in our opinion, at 81% of the national average. Per capita market value, a measure of wealth, is strong at about $55,946. The city's property tax base has exhibited steady growth despite the national economic recession, with assessed value (AV) increasing a cumulative 21% to $1.04 billion for fiscal 2012 from $865 million in fiscal 2008 despite that natural disasters destroyed nearly 5,400 residential structures in April 2011. Officials attribute the continued positive trend in AV to the city's successful ongoing recovery, which includes the issuance of 2,061 repair and 230 new construction residential building permits, 227 repair commercial building permits and 55 new construction commercial building permits, and assorted commercial redevelopment (see Tornado Recovery section). Permits issued during the fiscal 2012 were valued at nearly $70 million. Market value for fiscal 2012 is estimated at more than $5.2 billion.

We consider Tuscaloosa's management practices "good" under our financial management assessment (FMA) methodology. An FMA of "good" indicates our view that practices are good but not comprehensive, with conservative well-embedded budgeting policies and procedures. In late 2010, the city adopted a formal and thorough debt management policy to govern the issuance of municipal debt. These practices, coupled with a sound investment management policy and reserve policy, are the main factors in our FMA.

The city's financial policies are conservative and comprehensive, in our view. Management typically bases revenue forecasts on prior-year revenue, budgeting for little or no growth while simultaneously budgeting for increases in expenditure. In practice, however, expenditures come in at or under budget while revenue rises, generating a long trend of surpluses. The city has a council-approved policy of maintaining a minimum unrestricted balance in its general fund, general reserve fund, and capital improvement fund, equal to 10% of general fund operations.

The city's financial position remains strong, in our opinion. Officials posted an available general fund balance of $11.5 million, or 9.5% of operations, at fiscal year-end 2011. Most (34%) of the city's general fund revenue comes from city sales taxes, followed by business licenses (18%), property taxes (14%), city share of county sales taxes (12.6%), lodging taxes (5%), and other local taxes (5%). Officials project ending fiscal 2012 with a $6 million operational surplus.. Officials have budgeted to end fiscal 2013 with relatively break-even operations. Management typically budgets for relatively flat sales tax collections, and both city sales taxes and the city's share of county sales taxes are up in fiscal 2012 to date, by 3% and 6%, respectively. City sales taxes increased by a cumulative 3.2% to $32.6 million in fiscal 2011 from $31.6 million in fiscal 2007 after overcoming a $1.6 million decrease in fiscal 2009. The city's top 10 sales tax payers represent 26% of the total and consist mainly of big-box retailers that provide goods in high demand for both the student and non-student segments of the population, as evidenced by the city's high per capita retail sales indicator.

Historically, Tuscaloosa has transferred the bulk of its general fund surpluses into the capital projects fund ($3 million in fiscal 2011), and doing this enables it to pay for many of its capital needs without incurring debt. The available

balance in this fund at fiscal year-end 2011 was $24.7 million, enough to fund almost all of the near-term capital projects. If the city were to experience a fiscal crisis, it could, with the approval of the city council, transfer this balance back into the general fund to stabilize operations. This added financial flexibility proved very helpful when the council elected to utilize $8.25 million from the capital projects fund to initially cover expenses resulting from the natural disaster of April 2011.

The city participates in the Employees' Retirement System of Alabama, a statewide pension plan. The city's contribution rate is actuarially determined, and the city has historically fully met its contributions. The city's annual pension cost was $5.6 million, or 4.2% of total governmental expenditures, in fiscal 2011. The employees' retirement system had a 73.2% funded ratio in fiscal 2011. The city funds its other postemployment benefits (OPEB) obligation on a pay-as-you-go basis. For fiscal 2011, the city's OPEB contribution was $604,000, or 0.46% of total governmental revenue. Combined, the city's unfunded pension liability ($19.7 million) and its unfunded OPEB liability ($8.1 million) were less 1% of market value.

Because of the city's practice of funding many of its capital needs through surplus general revenue, debt levels are low, in our view. Overall debt, net of self-support from the water and sewer system, is also low, in our opinion, at about $1,235 per capita and 2% of market value. Debt amortization is average, with 54% of GO debt principal retired within 10 years and all debt retired by 2039, allowing the city to layer on additional debt without significantly increasing historical carrying charges. Officials may issue $10 million to $20 million of additional debt within the next 12 months.

Outlook

The stable outlook reflects our view of Tuscaloosa's operating flexibility, which results from strong general fund and capital fund reserve levels and the city's historical practice of applying general fund surpluses toward nonrecurring capital spending. In addition, the outlook reflects our view of the economic stability stemming from the university's presence, along with the economy's ongoing diversification into other sectors. For the reasons above, we do not anticipate changing the rating during the standard two-year outlook horizon.

Tornado Recovery

Almost a year and a half have passed since numerous tornadoes devastated multiple cities across Alabama on April 27, 2011. Tuscaloosa represents one such area that is rebuilding, having lost 53 of its citizens and suffered damage to or destruction of nearly 5,400 residential structures and nearly 400 commercial structures, according to city officials. As part of its recovery, the city has issued more than 2,000 repair permits and 206 new construction permits in the affected residential areas. Officials report no structural damage downtown or at the three universities or colleges located in Tuscaloosa, and no interruption of city services. According to management, the affected city facilities included the Curry Building, which housed the environmental services department, the emergency management agency, and the facilities maintenance department; the Police Athletic League building; a police auction lot; and one fire station. All city facilities, including those mentioned above, were fully insured. Officials were able to temporarily relocate the Curry Building departments, and they report that the wastewater treatment plant suffered minor damage.

Tuscaloosa was declared a disaster area by the President of the United States the day immediately following the disaster; this declaration provided federal assistance for projects relating to debris removal, emergency protective measures, roads and bridges, water control facilities, buildings and contents, utilities, parks, recreational areas, and other facilities. For instance, the Federal Emergency Management Agency (FEMA) and the U.S. Army Corps of Engineers removed debris from city rights of way and eligible private property. Although FEMA bore the brunt of the cost, as of fiscal 2011 year end the city's estimated share of debris removal costs, according to management, was $1.2 million. The city has requested reimbursement for the cost of rebuilding or repairing city facilities, and the cost of eligible repairs that are not reimbursed by insurance will be reimbursed by FEMA at 75%, by Alabama at 12.5% of the local match, and by the city at 12.5%, according to officials.

Officials initially paid off storm-related expenses with a $8.25 million loan from the city's capital projects fund to the FEMA Storm Recovery Fund. Officials anticipate that FEMA, Alabama, or insurance proceeds will reimburse most of the costs. Officials also established a fund to receive insurance proceeds to manage the rebuilding of insured capital assets. According to management, the city realized a $25.3 million loss and as of fiscal 2011 year-end had realized $15.3 million of insurance recoveries related to the storm (receiving $13.8 million and recording $1.5 million as a receivable). Officials anticipate being reimbursed most of the remaining $10 million in the form of additional state and FEMA reimbursements during fiscal 2012. With the help of citizens and business owners, officials created and continue to implement a forward-looking strategic plan for new zoning districts and building codes for storm-affected areas, hastening recovery. During 2011, the city issued 4,879 building permits representing $239 million, compared with the 1,540 permits worth roughly $205 million in 2010. The city recently adopted a Tuscaloosa forward generation master plan that will incorporate the strategic plan birthed from the rebuilding effort into the city's dynamic community master plan.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- Ready For The Big One? How Natural Disasters Can Affect U.S. Local Governments' Credit Quality, Oct. 27, 2011

Ratings Detail (As Of October 26, 2012)		
Tuscaloosa GO		
Long Term Rating	AA+/Stable	Affirmed
Tuscaloosa GO		
Long Term Rating	AA+/Stable	Affirmed
Tuscaloosa GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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