



Moody's Investors Service

**New Issue: MOODY'S ASSIGNS AN A1 RATING TO THE CITY OF MOBILE'S (AL) \$86.0 MILLION GENERAL OBLIGATION WARRANTS, SERIES 2009**

Global Credit Research - 10 Aug 2009

**AFFIRMATION OF A1 RATING AFFECTS APPROXIMATELY \$309.76 MILLION IN PREVIOUSLY ISSUED PARITY DEBT, INCLUDING THE CURRENT ISSUE**

Municipality  
AL

**Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
General Obligation Refunding and Improvements Warrants, Series 2009	A1
<b>Sale Amount</b>	\$86,000,000
<b>Expected Sale Date</b>	08/15/09
<b>Rating Description</b>	General Obligation Limited Tax

**Opinion**

NEW YORK, Aug 10, 2009 -- Moody's Investors Service has assigned an A1 rating to the City of Mobile's (AL) \$86.0 million General Obligation Warrants, Series 2009. Concurrently, Moody's has also affirmed the A1 rating on approximately \$309.76 million in previously issued parity debt. The warrants are secured by the city's general obligation, limited ad valorem tax pledge. The Series 2009 Warrants will advance refund and restructure \$63 million of the city's outstanding Series 2002 Warrants for an estimated net present value savings of \$157,516 or 0.30% of refunded principal. Additionally, the Warrants will provide \$23 million in new money for the construction of the National Maritime Museum of the Gulf of Mexico. The A1 rating reflects the city's stable financial position, sizeable and growing economic tax base and manageable debt burden.

**FINANCES REMAIN STABLE; RESERVES DECLINED IN FISCAL 2008**

Moody's believes the city's financial position will remain stable over the near term despite recent draw-downs of reserves given a history of conservative budgeting, prudent fiscal management and a growing economic base. Over the last several years, the city has improved its overall financial position through the augmentation of various reserves, including those in the General Fund, Capital Improvement Fund and Strategic Fund. In addition to conservative budgeting, the city has benefited from strong sales tax revenue growth from fiscal 2003 through fiscal 2006, which in turn allowed for increased reserves in both the General Fund and Capital Improvements Fund. Sales tax revenues for the General Fund have increased by 27.27% in five years, averaging approximately 4.66% growth annually (including a 3.6% decline in sales tax revenues in fiscal 2007). Management attributes some of the growth in sales tax revenues to increased consumer spending after Hurricane Katrina, although fiscal 2007 revenues still ended \$8.15 million above pre-Katrina revenues of \$107.22 million in fiscal 2005. Similar growth trends have been experienced with business license revenues, increasing 30.07% since fiscal 2003 (5.6% annually). Officials attribute strength in business license growth to new commercial businesses moving into the area after Katrina, as well as several corporate relocations in recent years. Management expects that business license revenues will continue to grow going forward, albeit at a slower pace, due in part to expansions at the Port of Mobile and the new ThyssenKrupp steel manufacturing and processing plant.

The city finished fiscal 2006 with an operating surplus, increasing General Fund reserves by approximately \$6.2 million. The increase is primarily attributable to the conservative budgeting of sales tax revenues and business license revenues. General Fund balance at the end of fiscal 2006 equaled \$23.09 million, or a satisfactory 11.4% of annual revenues. On an undesignated basis, General Fund reserves were \$18.4 million (9.1% of annual revenues). The city has additional financial flexibility in its Capital Improvement Fund, where undesignated (cash) reserves approximated \$24 million. These, combined with the General Fund undesignated reserves, equal \$42.4 million, or a solid 21.1% of annual revenues. The Capital Improvement

Fund is funded primarily with sales tax receipts, with one and two-thirds pennies of the city's 4 cent sales tax diverted to this fund for capital maintenance. However, these monies are legally available for operating purposes, and the city transfers a portion to the General Fund each year. The city's Strategic Fund provides additional financial flexibility, although at a lower level given relatively less reserves. Fiscal 2007 ended with an overall reduction to General Fund balance of \$4.89 million (total General Fund reserves equal to \$18.19 million or 9.3% of annual revenues). Undesignated General Fund reserves were \$12.99 million (6.7% of annual revenues). The Capital Improvements Fund also finished with an overall reduction of \$1.88 million, decreasing to a total of \$28.46 million. Undesignated Capital Improvement Fund reserves were \$19.37 million; bringing combined General Fund and Capital Improvement Fund reserves to \$32.36 million or a satisfactory 16.6% of annual revenues. Management attributes the reductions in both reserves to a slowdown in the national economy and therefore underperformance of sales tax revenues. Sales tax revenues in the General Fund were below budget by \$5.7 million and slightly above budget for the Capital Improvement Fund (\$379,000).

Audited fiscal 2008 results show that the city experienced another operating deficit and reduction in General Fund reserves of approximately \$1.33 million, decreasing total General Fund balance to \$16.87 million or 8.0% of annual revenues. On a combined basis, including the General Fund, Capital Projects Fund and the Strategic Fund, the city had a total reduction in combined reserves of \$2.88 million, ending with a combined balance of \$33.82 million or 16.0% of annual revenues. The fiscal 2008 General Fund operating deficit was primarily the result of supplemental appropriations for Public Safety (\$1.1 million Police, \$725,000 Fire, \$783,000 Jail) and Public Works (\$1.9 million in increased municipal garage expenses, including fuel and parts). Additionally, city sales tax revenues came in approximately \$890,000 below budget (General Fund). Business License and Permit revenues were above budget by \$1.6 million in the General Fund (\$2.49 million on a combined basis).

The fiscal 2009 budget included \$120.09 million in sales tax revenues (34.21% increase budget to actual), \$30.43 million in business license revenues (7.59% decrease budget to actual) and \$10.28 million in property tax revenues (11.38% decrease budget to actual). The large increase in sales tax revenues is due to a change in how sales tax revenues are accounted for in the General Fund and Capital Fund. On a combined basis (General Fund and Capital Improvement Fund), sales tax revenue was budgeted at \$139.02 million (1.67% decrease budget to actual). Year-to-date performance shows that sales tax revenues are below budget by approximately \$6.0 million (combined basis) and business license revenues are below budget by \$500,000 (combined basis). Management believes that due to reductions in departmental expenses, current revenue shortfalls should be sufficiently offset as to end fiscal 2009 with essentially balanced operations. The city's ability to manage future sales tax declines, match recurring expenditures with recurring revenues and to maintain current reserve levels will be an important rating factor going forward. Continued declines in combined reserves could put negative pressure on the credit rating in the future.

The city is currently committed to maintaining fund balance equal to one month's operations in the General Fund as a hurricane reserve and is in the process of establishing minimum reserve levels in both the General Fund and the Capital Improvement Fund. Future rating analysis will monitor the city's ability to maintain current reserve levels, both in the General Fund and Capital Improvement Fund or on an overall basis.

#### ECONOMIC GROWTH EXPECTED TO CONTINUE WITH ADDITION OF THYSSENKRUPP PLANT

Moody's expects continued growth in and around the City of Mobile, given the construction of a new ThyssenKrupp (senior unsecured debt rated Baa3 with negative outlook) steel manufacturing and processing plant, as well as various other new industrial expansions. The city serves as the economic hub for the larger metropolitan area, which encompasses all of Mobile (GOLT rated Aa3) and Baldwin (GOLT rated Aa3) Counties in southern Alabama, as well as portions of eastern Mississippi.

The city's economy has become increasingly diversified in recent years, following a downturn related to the closing of local paper products plants. The largest boost to the local economy relates to the ThyssenKrupp Steel and Stainless USA, LLC decision to construct a state-of-the-art carbon and stainless steel manufacturing and processing facility. Construction has begun and entails an investment from ThyssenKrupp of approximately \$3.7 billion. The new plant will include a hot strip mill which will be used primarily to process slabs from the company's new steel mill in Brazil. The construction phase of the facility is expected to generate as many as 29,000 jobs and the plant could create as many as 2,700 new jobs when fully operational. Management expects the carbon steel mill to be operational in 2010 and the stainless steel mill in 2011. City officials also expect the economy to benefit over the near-term with the

introduction of multiple new ancillary or tier 1 supplier companies.

In addition to the new steel plant, EADS CASA (senior unsecured debt rated A1 with a stable outlook), the North American arm of Airbus, which already has operations in the city, is currently in the bidding process for a contract which would entail assembling two transport aircrafts in the city and the construction of an Air Force Joint Cargo Aircraft in Mobile (if approved by the Air Force). The two projects together would result in a \$20 million investment and the addition of 150 jobs. EADS is also in the process of completing an expansion at the city's municipal airport where they repair various Coast Guard and Army aircraft.

Ryla, Inc., a call center solutions provider, has recently completed a regional headquarters, corporate data center in Saraland, AL which will add an estimated 1,200 jobs to the Mobile area. The first 400 jobs are expected to be created during the summer (2009) with the remaining 800 positions by the end of 2011. Austal USA (customized aluminum commercial and defense vessels) is also in the process of completing a \$254 million expansion at their Mobile facility (1,000 positions total). Several other major industrial companies have committed to locating or expanding in the city, including Atlantic Marine (\$21.2 million expansion - 250 positions total), C&G Boatworks (\$1.3 million expansion - 150 positions total) and SSAB (\$460 million expansion - 180 positions total).

Further strengthening the local economy is the Port of Mobile, the eleventh largest port in the United States. The port includes approximately six million square feet of covered and open storage and two of the largest floating dry docks on the Gulf Coast. The port offers deepwater terminals with direct access to five Class 1 railroads, a weekly ferry service to Coatzacoalcos, Mexico and 1,500 miles of inland and intracoastal waterways serving the Great Lakes, the Ohio and Tennessee valleys and the Gulf of Mexico. Several major capital expansion projects are underway and, once completed, are expected to enable the port to handle the needs of Alabama's and the southeast regional manufacturers, including the automotive industry.

Residential development continues to slow as a result of the housing crisis and national recession, however new growth is expected as the ThyssenKrupp plants gradually come online. Median and average home prices are down an estimated 13.44% and 10.91% respectively, as of June 2009 (as compared to June 2008). The number of units sold in fiscal 2008 has decreased by 20.42% since fiscal 2007 and is estimated to decrease even further by the end of fiscal 2009. Additionally, the number of housing units for sale continues to increase, with 3,401 units available as of June 2009. This is up an estimated 3.37% from June 2008 and 75.13% since June 2006.

Unemployment rates continue to be slightly above state averages, with 9.7% (May 2009) versus 9.3% for the state and 9.1% for the nation. Wealth levels also approximate the state with per capita income of \$18,072 or 99.4% of state (1999) and \$39,752 or 95.4% of state. Full value per capita is average at \$67,456; however the poverty level at 21.2% in the 2000 census is above the state level (16.1%). Also benefiting the city's economy have been rebuilding activities in the Gulf after hurricanes Ivan and Katrina with sales taxes experiencing double digit growth in 2005 and 2006 (more details in the finance section above). While the city has economically benefited from these recent storms, it is important to note that the city is itself vulnerable to hurricanes given its location.

#### MANAGEABLE DEBT BURDEN

Moody's believes the city's debt burden is manageable and will gradually decline given plans to cash fund additional capital needs, additional tax base growth and average amortization of outstanding principal. The city's direct debt burden is 2.6% of full valuation and increases to a still manageable 4.3% when taking into account the overlapping debt of local municipalities. Amortization of principal is average at 33.8% of principal retired within ten years. The current issue will provide \$23 million towards the construction of Gulf Quest - National Maritime Museum of the Gulf of Mexico. The museum is expected to be 90,000 square feet, offering various interactive and hands-on exhibits and will be located at the city's new downtown waterfront development. City officials estimate the museum will open sometime in 2011. The city has no authorized but unissued debt and anticipates cash financing routine capital maintenance through the Capital Improvement Fund and does not have additional borrowing plans at this time. All of the city's debt is fixed rate and the city does not have any derivative agreements outstanding.

#### KEY STATISTICS

2007 population: 191,411

FY 2008 Full Value (estimated): \$12.9 billion

FY 2008 Full Value Per Capita (estimated): \$67,456

Direct Debt Burden: 2.6%

Debt Burden: 4.3%

Payout of Principal (10 years): 33.8%

2007 General Fund Balance: \$18.19 million (9.3% of General Fund revenues)

2007 Undesignated Combined Fund Balance (General Fund and Capital Improvement Fund): \$32.36 million (16.6% of combined revenues)

2008 General Fund Balance: \$16.87 million (8.0% of General Fund revenues)

2008 Undesignated Combined Fund Balance (General Fund, Capital Improvement Fund and Strategic Fund): \$33.82 million (16.0% of General Fund revenues)

1999 Per capita income as % of state: 99.4%

1999 Median family income as % of state: 95.4%

Unemployment (May 2009): 9.7%

Post-issue Parity Debt Outstanding: \$309.76 million

#### METHODOLOGY REFERENCE

The principal methodology used in rating the City of Mobile, AL was "Local Government General Obligation and Related Ratings" which can be found on Moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory.

The city's A1 rating was last assigned on July 2, 2008.

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