



Moody's Investors Service

7 World Trade Center at 250 Greenwich Street
New York, New York 10007

June 18, 2009

Director of Finance
City of Birmingham, AL
City Hall - 1st Floor (Finance Department)
710 North 20th Street
Birmingham, AL 35203

We wish to inform you that on June 17, 2009, Moody's Investors Service reviewed and assigned a rating of **Aa3** to City of Birmingham, AL's General Obligation Warrants, Series 2009-A.

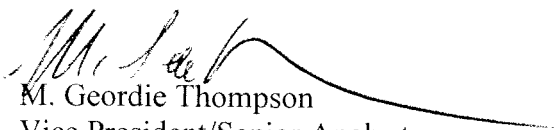
In order for us to maintain the currency of our ratings, we request that you provide ongoing disclosure, of current financial and statistical information.

Moody's will monitor this rating and reserves the right, at its sole discretion, to revise or withdraw this rating at any time in the future.

The rating, as well as any revisions or withdrawals thereof, will be publicly disseminated by Moody's through normal print and electronic media and in response to verbal requests to Moody's Rating Desk.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Christopher Coviello at 212-553-0575.

Sincerely,


M. Geordie Thompson
Vice President/Senior Analyst

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Moody's Investors Service

Global Credit Research

New Issue

17 JUN 2009

New Issue: Birmingham (City of) AL

MOODY'S ASSIGNS Aa3 TO THE CITY OF BIRMINGHAM'S (AL) \$19.52 MILLION GENERAL OBLIGATION WARRANTS, SERIES 2009-A

Aa3 RATING APPLIES TO \$545 MILLION IN OUTSTANDING DEBT, INCLUDING THE CURRENT ISSUE

Municipality
AL

**Moody's Rating
ISSUE**

RATING

General Obligation Warrants, Series 2009-A

Aa3

Sale Amount \$19,520,000

Expected Sale Date 06/19/09

Rating Description General Obligation Limited Tax

Opinion

NEW YORK, Jun 17, 2009 – Moody's Investors Service has assigned a Aa3 rating to the City of Birmingham's (AL) \$19.52 million General Obligation Warrants, Series 2009-A. Concurrently, Moody's has also affirmed the Aa3 rating on \$545 million of parity debt, including the current issue. The warrants are general obligations of the city, secured by a limited property tax pledge. The high quality Aa3 rating reflects a diverse and regionally important economy, as well as a stable financial position, marked by conservative management and solid reserve levels. The rating also takes into consideration an above average, but manageable debt burden. Proceeds from the Series 2009-A Warrants will restructure the city's Series 2004-A Warrants from variable rate to fixed rate.

REGIONALLY-IMPORTANT ECONOMY FEELS EFFECTS OF RECESSION; STABILITY EXPECTED OVER THE NEAR TERM

Moody's expects the city's \$21.8 billion tax base will remain stable over the near term, given its location in north central Alabama, regionally-important economy and diversified workforce. Birmingham is Alabama's largest city, with an estimated population of 229,800. The city continues to benefit from an educated workforce and diversified economy, including manufacturing, financial services and healthcare sectors. The city serves as the financial and service center for the metropolitan area and derives stability from a strong institutional presence anchored by the University of Alabama Medical Center, employing 18,750, as well as various federal, state and local government employers. The Regions Bank acquisition of AmSouth Bancorp was completed in April 2008, generating an additional 400 jobs in the metropolitan area, with a significant number of jobs located within the city. Various hospital projects are ongoing, including an expansion of the Women's and Children's Center at the University of Alabama at Birmingham, a \$150 million expansion at St. Vincent's Hospital and a \$750 million development project at Trinity Medical Center, all of which will further strengthen the regional importance of the health care sector in the city.

While commercial and industrial growth has slowed to some degree, sections of the city continue to experience various plant expansions, relocations and new construction. Over the last six months three new companies have built facilities in the city's Daniel Payne Industrial Park and are expected to add 112 new jobs over the summer. Flowers Baking Company is expected to begin a \$2.2 million expansion within the next two months, adding approximately 35,000 square feet of production space and a number of new jobs to the 249 positions already at the plant. The city is also expecting to add three new hotels to the tax base: a Hyatt Place hotel (opening July 2009); Residence Inn (opening within three months); and a Candlewood Suites Hotel (breaking ground August 2009).

The residential housing market continues to show signs of softening in 2008 and 2009. Birmingham's median home price in 2008 was \$153,400, a 4.3% decrease over 2007 (\$160,300). Through the first quarter of 2009, median home prices decreased at an even greater rate of 13.56% to \$132,600 (total decrease since 2007 of 17.3%). Birmingham has seen a modest increase of 5.5% in average number of days on the market (109 days in 2008 vs. 115 days in 2009), although the actual inventory of houses on the market has decreased almost 22%, since its high in August 2008 (13,582 listings in August 2008 vs. 10,649 in March 2009). Management also commented that foreclosures are up modestly in 2009. Birmingham did not experience the dramatic run-up in housing prices that the majority of the nation did, and the number of mortgage defaults within the city is lower than the national average.

Rising unemployment has generally followed state and national averages over the last ten years. Since April 2008, unemployment levels have risen by 6.1% to 10.4% as of March 2009. This is above the state and national average of 9.0%. While job losses have been heavy in the financial and manufacturing sectors, the healthcare and educational sectors have also seen employment loss. These broad-based job losses are expected to exacerbate mortgage delinquency rates, as well as the severity of the recession, at least in the short run. City wealth levels remain below average with per capita income of \$15,663 (86.1% of state) and median family income of \$31,851 (76.5% of state). Full value per capita is \$95,121.

Birmingham's population contracted by 13.6% from 1990 to 2007, while the Birmingham-Hoover Metropolitan Statistical Area grew by nearly 15.67% over the same period. City officials continue to implement aggressive strategies to reverse this trend of migration to other parts of Jefferson (G.O.L.T. rated Caa1 with negative outlook) and Shelby Counties (Issuer Rating Aa1), and it should be noted that the city's Occupational Tax captures significant revenues from commuters. Assessed values have been increasing moderately with an average annual growth rate of nearly 3.9% over the last five years. Jefferson County reappraises annually for all properties within the county and as a result, the city should benefit from steady annual growth in the tax base.

FINANCIAL POSITION CONTINUES TO STRENGTHEN; BALANCED OPERATIONS PROJECTED FOR FISCAL 2009

Moody's believes the city will continue to benefit from a solid financial position given conservative budgeting practices, prudent fiscal management and healthy reserve levels. The city has had a history of maintaining reserves at or above 20% of annual revenues since 2001. Reserves strengthened even further in fiscal 2007 and 2008, when the city produced operating surpluses of \$17.8 and \$21.7 million, respectively. The fiscal 2007 operating surplus was achieved through increases in property tax revenues, occupational license tax revenues, business license fees and bank excise tax revenues of approximately \$14.5 million. In addition, the city realized an estimated \$3.3 million in personnel savings. Fiscal 2008 ended with a total General Fund balance of \$117.5 million, or a solid 31.9% of annual revenues; unreserved undesignated General Fund balance was 28.8% of annual revenues. The fiscal 2008 operating surplus was predominantly the result of increases in both the sales tax rate (additional 1 cent sales tax for the last 6 months of the year) and business license fees, as well as approximately \$7.15 million in personnel savings (primarily police and fire). While sales tax revenues increased an estimated \$12.5 million from the 1 cent rate increase, overall sales tax revenues came in approximately \$18.59 million above the original fiscal 2008 budget. The city's three largest revenue sources are sales and use tax (35.07% of fiscal 2008 revenues), business license fees (24.42% of fiscal 2008 revenues) and occupational tax (21.19% of fiscal 2008 revenues). Management's ability to conservatively budget these more economically sensitive revenue sources, especially during the current recession, will be an important component of future rating analysis. Property tax revenues make up a relatively small portion of the city's revenues, at 7.59% in fiscal 2008.

The fiscal 2009 budget included no appropriated fund balance, \$148.1 million in sales tax revenues (14.16% increase over fiscal 2008 actuals), \$85.3 million in business license fees (flat from fiscal 2008 actuals) and \$80.3 million in occupational tax revenues (4.42% increase over fiscal 2008 actuals). Year-to-date revenues through May are coming in slightly less than budgeted, with sales tax revenues at 86.4% of budget, business license fees at 95.9% of budget and occupational tax revenues at 88.4% of budget. Management is projecting that the city will end fiscal 2009 with essentially balanced operations and General Fund reserves that approximate fiscal 2008 levels.

The proposed fiscal 2010 budget includes a decrease in sales tax revenues of 7.16% (budget to budget), an increase of 9.03% in business license fees (budget to budget) and a 4.48% decrease in occupational tax revenues. Management believes the proposed fiscal 2010 budgeted revenues will be sufficient to offset the rising costs of healthcare, salaries, utilities and fuel. The city council is in the process of holding various budget hearings and is expected to pass the budget without any major adjustments.

ADDITIONAL RESERVES PROVIDE A CUSHION AGAINST SHORTFALLS

In addition to the city's formalized General Fund balance policy of maintaining 25% of annual operating expenses in reserve, the city maintains other large reserve funds, including the Birmingham Fund, with a fund balance of \$84.9 million at fiscal 2008 year end, established by a one-time receipt of \$85 million from the sale of the city's industrial water system in 1993. The use of Birmingham Fund reserves is limited to no more than 5% of the year end balance for capital expenditures, although city council can vote to authorize the use of more than 5% and/or the use of fund reserves for non capital expenditures if approved by a majority of city council. The city additionally has a \$41.5 million in reserves in the General Bond Debt Reserve. Total available reserves for fiscal 2008 equaled \$234.2 million or a healthy 63.6% of annual revenues. Moody's believes conservative investment and restricted use of these reserves is important to the city's financial condition and credit quality.

ABOVE AVERAGE DEBT LEVELS MODERATED BY SUBSTANTIAL RESERVES; CONSTITUTIONAL LIMITS RESTRICT FURTHER ISSUANCES

Moody's expects the city's net direct debt burden (2.1% of full value) will remain manageable, given an average payout (60.3% in ten years) and dedicated reserves that mitigate above average leveraging. Somewhat offsetting this elevated debt level is a \$41.5 million General Bond Debt Reserve balance, which is funded annually from a dedicated 9.2 mill property tax. Debt burden is high on an overall basis at 9.7%, reflecting significant overlapping tax-backed debt of Jefferson County. Under Alabama law, cities have a constitutional debt ceiling, excluding borrowings for schools and sewers, of 20% of net assessed value. Birmingham's 2008 net assessed value of \$2.9 billion creates a debt ceiling of \$587 million, approximately \$177 million above current actual debt levels. After the current restructuring, the city's variable rate debt exposure will be less than 7% of total debt. Additionally, the city is not party to any interest rate swaps transactions. The city does not have any authorized but unissued debt and does not plan to issue new money debt within the next two years.

Approximately \$76.4 million of debt related to the city's Series 1998-A, 1998-B and 2000-A is the responsibility of the Birmingham Water Works Board. In 1998, the City of Birmingham transferred the water utility assets from the Birmingham Water Works Board to the city in order to sell the assets to a private entity. This sale was designed to raise money to fund the substantial backlog of capital needs for the city school system. Birmingham voters defeated a referendum by over 60%, however, which would have allowed the city to sell the water system assets to a private entity. As the city had planned to leverage the water utility to meet the capital requirements for its school system, an agreement was reached to transfer the assets of the system back to the Board in exchange for a \$196 million payment to the city in 2002, and the assumption, through a Funding Agreement, of three series of general obligation debt (Series 2000-A, 1998-A & 1998-B). While this debt is still included on the city's debt statement, debt service is paid from the Birmingham Water Works Board. The Birmingham Water Works Board is considering restructuring the Fund Agreement Obligations, which would effectively reduce the city's overall debt by approximately 13.71%. Total debt service, including the Funding Agreement Obligations, was equal to 9.2% as of fiscal 2008.

KEY STATISTICS:

2005 population: 231,483

2006 full valuation: \$16.7 billion

2006 full value per capita: \$72,406

Per capita income (1999): \$15,663

PCI as a % of State PCI (1999): 86.1%

Median Family Income (1999): \$31,851

MFI as a % of State MFI (1999): 76.5%

Direct debt burden: 3.1%

Overall debt burden: 6.4%

Payout of principal (ten years): 56.4%

FY 2006 General Fund balance: \$77.9 million (24.9% of General Fund revenues)

FY 2006 Available fund balance (undesignated General Fund and Birmingham Water Work Fund): \$149.9 million (48% of General Fund revenues)

Unemployment (February 2007): 4.3%

Post-sale parity debt outstanding: \$601 million

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