



New Issue: **Jefferson (County of) AL**

MOODY'S ASSIGNS Aa3/VMIG 1 RATING TO JEFFERSON COUNTY ALABAMA'S GENERAL OBLIGATION WARRANTS, SERIES 2001-B

MOODY'S UPGRADES COUNTY'S OUTSTANDING \$290 MILLION OF DEBT TO Aa3 FROM A1.

County
AL

Moody's Rating

ISSUE	RATING
General Obligation Warrants, Series 2001B	Aa3
Sale Amount	\$120,000,000
Expected Sale Date	07/19/01
Rating Description	General Obligation

Opinion

NEW YORK, Jul 18, 2001 -- Moody's Investors Service has assigned a Aa3/VMIG 1 rating to Jefferson County Alabama's General Obligation Warrants, Series 2001-B. In conjunction with the current issue, the County's long term General Obligation rating has been upgraded to Aa3 from A1 affecting approximately \$290 million in outstanding General Obligation debt. The rating upgrade is based upon the county's broad and stable economic base, sound financial position and manageable debt levels. The rating also reflects favorable court rulings upholding continued collections of the county's special occupational license tax. The VMIG 1 rating reflects the credit strength and liquidity of the county, and additional liquidity support for tendered warrants provided by a strong Standby Warrant Purchase Agreement with Morgan Guaranty Trust Company of New York (rated Aa2/P1) and Bayerische Landesbank Girozentrale, New York Branch (rated Aaa/P1). To limit the variable rate exposure, the County is expected to enter into a swap agreement with Morgan Guaranty Trust which extends for 10 years of the 20 year maturity of the current issue. Proceeds of the current issue will be used to refund and permanently finance the County's outstanding Series 1996 and 1999 Warrants. The Series 2001-B Warrants are secured by a full faith and credit general obligation (limited tax) pledge of the County.

STRONG LIQUIDITY SUPPORT FOR PUT DEMAND FEATURE

Liquidity for the warrants is provided for by a Standby Warrant Purchase Agreement with Morgan Guaranty Trust Company of New York (rated Aa2/P1) and Bayerische Landesbank Girozentrale, New York Branch (rated Aaa/P1). While each Bank's obligation to fund under the agreement is conditional, Moody's believes the conditions leading to immediate termination of the liquidity facility unlikely for the issuer - including issuer insolvency and failure to pay debt service on the Warrants or Bank Warrants. All other conditions require 30 days notice, leading to mandatory tender of the Warrants. A total of \$120 million in principal is covered under the Standby Warrant Purchase Agreement, as well as 35 days of interest at the maximum 10% rate. While the current issue expires in 2021, each Bank's initial commitment under the agreement is for a three-year term to expire in July of 2004. The term of the commitment may be extended for an additional period to

be determined by the Banks upon the county's request for such an extension.

REGIONALLY IMPORTANT AND STABLE ECONOMY

Jefferson County, the most populous county in the state, contains the City of Birmingham (rated Aa3) which is the primary financial, commercial, manufacturing, and health care center of Alabama. The University of Alabama at Birmingham is the largest employer in the state with over 15,000 employees and has facilitated the transition of the local economy over the last decade from steel manufacturing to medical research and the delivery of health care. Taxable values within the county have grown at an average annual rate of approximately 4% over the last ten years. Moody's expects taxable values to continue to grow at moderate levels, given the regionally important economic base and recent industrial development announcements. A number of suburban cities in the County are among the fastest growing and most affluent communities in the state. Local wealth levels are well above state averages. County unemployment levels, currently at 3.2%, consistently remain below state and national averages.

SOUND FINANCIAL POSITION

Ample reserve levels and strong budgetary controls characterize the County's sound financial position. Despite the use of General Fund reserves to finance capital improvements and to reverse a cash deficit in the County's Landfill Operations fund in fiscal 2000, Moody's believes that reserve levels remain adequate at year-end. Fiscal 2000 General Fund reserves at \$39 million, or 23% of revenues, provides financial flexibility given the county's strong dependence on sales tax revenues. Also, the County maintains ample reserve levels in other Governmental funds (Debt Service) and Proprietary funds. Sales, property and occupational license taxes are the County's three primary revenue sources comprising approximately 30%, 21% and 19% of operating revenues, respectively. Fiscal 2001 is budgeted for a moderate deficit, but Moody's believes that reserve levels will remain adequate given the County's conservative budgeting practices which is partially attributable to the slight General Fund surplus expected by the end of the current fiscal year.

RECENT OCCUPATIONAL LICENSE TAX RULING IN FAVOR OF THE COUNTY

The constitutionality of the County's occupational license tax has been challenged since 1992. In fiscal 2000, the occupational license taxes totaled a substantial \$52.7 million, or 19% of operating revenues. Oral arguments, which began again on April 18, 2001, resulted in a favorable opinion by the Alabama Supreme Court that allows for continued collection of the county's special occupational license tax. It is also important to note the ruling in favor of Jefferson County may be appealed, resulting in the continued challenge of the constitutionality of the tax.

MODERATE DEBT LEVELS WITH ABOVE AVERAGE PAYOUT

The County's moderate debt burden, at 2.9%, approximates medians for similarly sized counties. It is important to note that a large amount of the County's overall debt relates to the City of Birmingham, as exemplified by the County's direct debt burden of 1.1%. Proceeds of the current issue will be used to refund and permanently finance the county's Series 1996 and 1999 General Obligation Warrants. Despite the current refinancing, payout remains above average with approximately 60% of direct debt retired in 10 years. Aside from the massive borrowing plans for the County's sewer system (currently rated Baa1), County officials are also considering financing alternatives for Cooper Green Hospital. The County could possibly issue up to \$50 - \$70 million in debt to build a smaller, replacement hospital. The debt would be supported by sales taxes and other revenues dedicated to the hospital enterprise. Given the improved operating efficiency anticipated at a newer facility, the hospital financing is not expected to negatively impact financial operations of the County. Moody's expects debt levels will remain manageable, given the County's sizeable tax base, limited General Obligation borrowing plans, and the expectation of continued self-support of the County's sewer operations through timely rate incenses.

KEY STATISTICS:

2000 population: 662,047

2000 full valuation: \$32.7 billion

Debt burden: 2.9%

Payout of principal (ten years): 60%

FY 2000 General Fund balance: \$39 million (23.4% of General Fund revenues)

Unemployment, January 2001: 3.2%

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