



Tagging Info

Fitch Downgrades Maitland, Florida's Limited Tax GO Bonds to 'BBB'; Outlook Negative

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Fitch Ratings-New York-20 July 2011: In the course of routine surveillance Fitch Ratings downgrades the following limited tax GO bonds of the City of Maitland, Florida (the city) to 'BBB' from 'AA':

--\$12,980,000 series 2005.

The Rating Outlook is Negative.

In addition, Fitch affirms the following outstanding ratings:

--Implied GOULT at 'AA+'.

In addition Fitch affirms the following Maitland Community Redevelopment Agency (FL) revenue bond:

--\$13,750,000 community redevelopment revenue bonds, series 2005 at 'AA'.

The Rating Outlook is Stable.

SECURITY

The limited tax GO bonds constitute a limited obligation of the city, payable from and secured solely by an irrevocable and unconditional obligation to levy ad valorem taxes in an amount not to exceed 0.5 mills per year on all taxable property within the city. The bonds are not secured by a debt service reserve fund.

The community redevelopment agency revenue bonds are secured by a pledge of tax increment revenues from the downtown redevelopment area, and a secondary pledge of the city's covenant to budget and appropriate legally available non-ad valorem revenues. The city's covenant to budget and appropriate lawfully available non-ad valorem revenues shall be cumulative and shall continue until the pledged tax increment revenues or such legally available non-ad valorem revenues are sufficient to fully defease the bonds.

CREDIT SUMMARY

LTGO Coverage Erosion: The downgrade of the LTGO rating to 'BBB' is based on the very narrow coverage of debt service from the maximum ad valorem tax pledged to bondholders. Coverage erosion stems from significant declines in the city's taxable assessed value (TAV) following the collapse of the housing market although fiscal 2012 TAV has stabilized. The Negative Outlook reflects the precarious nature of the Florida housing recovery, and potential for further TAV declines that could result in pledged tax revenues that insufficiently cover annual debt charges.

KEY RATING DRIVERS

History of High Reserves: Entering fiscal 2011 the general fund unreserved fund balance totaled \$15.1 million or a very high 72% of spending, and no less than 39% of spending dating back to fiscal 2005.

Sound Financial Management: Despite a challenging operating environment, revenue and expenditure budgets are consistently met, and the city has generated a net surplus within the general fund in each of the fiscal years 2005 - 2010.

Above-Average Socioeconomic Indicators: The city has a very well educated labor force, very low incidence of poverty, and income indices are above-average relative to the state and nation.

Debt to Remain Manageable: Total tax supported debt service in fiscal 2012 will total less than \$1.7 million or 7% of combined fund spending. Future capital needs are minimal and no additional borrowing is contemplated.

Proximity to Orlando: Maitland is located approximately 10 miles north of Orlando, the economic anchor of central Florida. The regional economy has been significantly affected by the current recession, but prospects for recovery are sound, led by a very strong tourism and hospitality sector.

WHAT COULD TRIGGER A RATING ACTION

--Continued decline in TAV and debt service coverage.

CREDIT PROFILE

LTGO Coverage:

The city will levy an ad valorem tax rate of 0.465 mills out of the maximum 0.5 mills pledged to secure the LTGO bonds to cover debt service coming due in fiscal 2012. A tax collection rate of 95% is assumed, which is consistent with historical collection results. Fitch calculates coverage of maximum annual debt service (MADS) of at least 1.0 times (x) assuming a decline in TAV no greater than 7% from the fiscal 2012 TAV of \$2.04 billion.

TAV Trends:

Maitland's TAV remained stable through fiscal 2009 before declining 8% in fiscal 2010 and 12.9% in fiscal 2011. Fiscal 2012 offers some evidence a bottom was reached, as TAV grew a very modest 0.1% on the year. In general, the city's peak to trough TAV decline has been less severe compared to many Florida local governments rated by Fitch, as was the upswing during the housing boom given its largely developed status. Furthermore, the city's housing market should benefit from its strong socioeconomic profile, and recent improvement in the regional labor market further bodes well for price stability. However, the nature of the Florida housing market recovery remains precarious at best, and Fitch believes there is a reasonable likelihood of additional declines in TAV that would directly impact the credit quality of the LTGO bonds.

Economy:

Maitland is located in Orange County approximately 10 miles north of Orlando. The city has a 2010 population of 15,751 residing within a near fully developed 6.4 square mile area. Despite its small size the city's commercial base is significant. According to the city the local office market includes over eight million square feet in leasable space housing more than 350 corporations that collectively employ approximately 24,000. The commercial mix features a number of hotels and restaurants, and a sports and training facility affiliated with the NBA's Orlando Magic and Florida Hospital. Among the city's corporate tenants are Sprint/Nextel, Clear Channel Communications, Bright House Networks, and EA Sports. A healthy market value per capita of approximately \$160,000 reflects the commercial component of the city's tax base and above-average resident wealth levels.

Employment data is not available from the Bureau of Labor Statistics due to the city's population size but the employment picture within the Orlando metropolitan statistical area (MSA) continues to show signs of improvement. Monthly employment figures have exhibited year-over-year growth consecutively from July 2010 to May 2011. The rate of joblessness within the MSA has improved during this period from 11.6% to 9.9%. In comparison the May 2011 unemployment rate for Florida was 10.4% and 8.7% nationally. The strongest job growth is occurring in the leisure and hospitality sector, a hallmark of the Orlando economy. Property and Portfolio Research and Global Insight forecast strong population growth through 2015 which should boost service sector opportunities, including education and health care.

Financial Profile:

The general fund recorded a net surplus of \$1.64 million or nearly 8% of spending in fiscal 2010. Entering fiscal 2011 the city's unreserved general fund balance totaled \$15.1 million or a very strong 72% of spending. The city targets an unreserved fund balance no less than 15% for emergencies or other natural disaster. The city is projecting a small surplus at the close of the fiscal 2011 (September 30), whereas the city had appropriated approximately \$500,000 in existing reserves to balance the budget.

The recommended fiscal 2012 budget appropriates \$608,316 in existing reserves, and includes a \$500,000 capital commitment to the SunRail commuter rail project (the city's total capital commitment to the project is limited to \$800,000). The recommended budget increases total general fund revenues by 4% or \$829,940 from the fiscal 2011 budget due to the full year of operation of additional red light cameras. The city states its revenue assumptions are supported by actual traffic studies approved by the Florida Department of Transportation. Fitch believes there is some risk to the revenue forecast related to enforcement of the citations and potential for legislative action. The city would look to service, personnel, and benefit reductions it has been able to avoid to date if revenues do not materialize.

Debt Burden:

The fiscal 2011 projection and the recommended fiscal 2012 budget do not reflect the planned expenditure of \$1 million to \$1.5 million in reserves to complete construction of a new city hall. The city reports no other capital projects it might consider funding from reserves. Debt ratios remain low and debt service costs are very manageable, budgeted at \$1.67 million in fiscal 2012 or 7% of related fund spending. Future capital needs are manageable (\$25 million thru 2015) and are largely expected to be financed from recurring sources and grant funding; no additional long-term debt is presently contemplated. The city does not have exposure to variable rate products, derivatives, or short-term notes. The principal weakness associated with the city's debt profile is a well below-average rate of outstanding principal amortization, with only 27% repaid within 10 years.

Pension & OPEB:

Pension benefits for general employees are provided through the state-wide plan (FRS) or a defined contribution 401(a) plan. The city also administers a single employer defined benefit pension plan for police and fire, which remains adequately funded. The city fully funds its annual pension costs, projecting a contribution of \$1.5 million or 7% of spending in fiscal 2012. Healthcare costs are a spending pressure, rising to \$1.8 million in fiscal 2012 including \$1.6 million for current employees. Flexibility exists to temper the future escalation of these costs, as Fitch notes the city generously funds 100% of employee coverage and contributes 15% towards dependent health coverage. In addition, the city provides an explicit subsidy, above what is required by state law, for health care costs of a limited number of retirees. Retiree health coverage is presently funded on a pay-as-you-go basis, although the recommended fiscal 2012 budget establishes a \$1 million internal fund balance designation for future costs. The city plans to recommend a long-term financing plan for OPEB over the course of the following year.

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In addition to the sources of information identified in the Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors, and Property and Portfolio Research.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 16, 2010);
--'U.S. Local Government Tax-Supported Rating Criteria' (Oct. 08, 2010).

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

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