Rating Update: Moody's affirms Maitland's (FL) Aa1 Issuer Long Term, Aa2 Community Redevelopment Bonds, and Baa3 GOLT

Global Credit Research - 05 Mar 2014

Maintains negative outlook on GOLT

MAITLAND (CITY OF) FL
Cities (including Towns, Villages and Townships)
FL

Opinion

NEW YORK, March 05, 2014 --Moody's Investors Service has affirmed Maitland's (FL) issuer long term rating at Aa1, Community Redevelopment Revenue bonds at Aa2, and Limited Tax General Obligation bonds at Baa3. The Aa2 rating affects $13.6 million of community redevelopment revenue bonds and the Baa3 rating affects $12.6 million of limited tax general obligation debt. Additionally, we have maintained the negative outlook on the limited tax bonds.

SUMMARY RATING RATIONALE

The Aa1 issuer long term rating reflects the city's moderately sized tax base, above average socioeconomic indicators, very healthy reserves maintained by strong management, and manageable debt burden. The affirmation of the Aa2 on the Community Redevelopment Revenue bonds reflects the security provided by the city's covenant pursuant to an interlocal agreement to budget and appropriate legally available non-ad valorem revenues to cover debt service in case of a shortfall in tax increment revenues; the obligation is absolute and unconditional through the life of the bonds. The Aa2 also considers the favorable coverage provided by non-ad valorem revenues and the adequate legal provisions. The Limited Tax General Obligation bonds are secured by the city's limited ad valorem tax of 0.5 mills. The affirmation of the Baa3 reflects the continued narrowed coverage provided by the 0.5 mills following the recent declines in the city's tax base and considers the reserves available in the debt service fund. The negative outlook on the limited tax bonds reflects our expectation that coverage will continue to be narrow.

STRENGTHS

- Historically healthy reserves maintained by strong management

- Above average socioeconomic indicators

CHALLENGES

- Recent declines in property values

- Slow debt service payout

- Narrow coverage for limited tax debt

DETAILED CREDIT DISCUSSION

MODERATELY SIZED TAX BASE STABILIZING FOLLOWING MULTIPLE YEARS OF DECLINE

Located about 8 miles north of downtown Orlando (issuer long term rating Aa1/stable) in Orange County (sales tax rated Aa2/stable), Maitland is a wealthy community, and its moderately sized tax base is beginning to stabilize following multiple years of decline. Following four years of full value declines, the city's tax base grew 1.5% for fiscal year 2014 to $2.4 billion. This growth follows assessed value drops of 8% in 2010, 12.9% in 2011, 1% in 2012 and 3.4% in 2013. Moody's expects modest assessed value growth in the next few years, due to several ongoing projects. Current development includes several multi-family housing units and the expected completion of the SunRail station in April 2014 that will provide regional access to the city via commuter rail. Additionally, the city will potentially annex 40 acres of land for mixed use development within the next year or two. The city's base is slightly concentrated with top ten taxpayers accounting for 15.8% of the base; however, the top ten taxpayers are all reportedly stable.

Socioeconomic indicators for the city are above average. Per the Census Bureau's 2006-2010 American Community Survey, the city's per capita income and median family income were very high at 172.6% and 158.5% of the US, respectively. Unemployment in the county was low at 5.4% as of December 2013, below the state (5.9%) and the nation (6.5%).

LIMITED TAX COVERAGE REMAINS NARROW FOLLOWING DECLINES IN BASE

The 0.5 mills pledged to the limited tax bonds continues to provide narrow coverage. For fiscal year 2014 assessments, coverage provided by the 0.5 mills is 1.04x maximum annual debt service (MADS) and 1.05x annual debt service at a 95% collection rate, which is the rate the city has collected in recent years. The city is levying 0.48 mills for fiscal year 2014, which is an increase from 0.44 mills in fiscal year 2013. The city had intentionally reduced the rate to a below sum sufficient 0.44 mills for 2013 to utilize a portion of the debt service fund balance. Per unaudited fiscal year 2013 results, the debt service fund has a remaining balance of $111,052 or about 12.3% of MADS. MADS will occur in 2022. Future reviews will focus on any improvements in the city's tax base corresponding to increased MADS coverage provided by the 0.5 mills, the sufficiency of the actual levy to cover annual debt service, and the maintenance of satisfactory reserves.

STRONG MANAGEMENT LIMITS EXPENDITURE GROWTH AND MAINTAINS HEALTHY RESERVES

Despite declining property values through 2013, strong management at Maitland has conservatively budgeted revenues and controlled expenditures to maintain healthy reserves. Demonstrating budgetary control, General Fund expenditures in fiscal year 2013 (unaudited) were only $80,000 more (or 0.4% higher) than they were in fiscal year 2007. The city consistently posted surpluses in fiscal years 2007 through 2011. In fiscal year 2012, the city transferred out $1.7 million to cash fund the remaining costs of a city hall construction project, resulting in a General Fund deficit. Regardless, the city maintained an available fund balance of $15.6 million or a very strong 69.4% of operating fund revenues in fiscal year 2012. City liquidity is strong as well with an operating fund cash position of $17 million or 75.9% of revenues.

Unaudited fiscal year 2013 results indicate a General Fund surplus increasing the available operating funds balance to $16.4 million or 71.9% of revenues. The surplus was driven by positive budget variance for both revenues and expenditures. Fiscal year 2014's budget includes a General Fund deficit of about $630,000. To date, officials report strong revenue collections, particularly from building permits, and positive expenditure variance as health insurance costs increased by less than the budgeted 5%. We expect the city will continue to maintain healthy reserves given its long-term and conservative budgeting practices and strong management.

COMMUNITY REDEVELOPMENT BONDS SUPPORTED BY THE CITY'S PLEDGE TO APPROPRIATE AND ADEQUATE LEGAL PROVISIONS

We believe the city's covenant to budget and appropriate legally available non-ad valorem revenues provides a strong basis for bondholder security. The pledged revenues for the community redevelopment bonds include tax increment revenues generated within the Community Redevelopment Agency's (CRA) boundaries and funds transferred from the city pursuant to an interlocal agreement. The obligation of the city to transfer funds to meet debt service obligations in the case of tax increment shortfalls is absolute and unconditional for the life of the bonds. At the time of the original issue, the city expected to need to transfer funds only for a few years; however, limited growth and property tax declines have resulted in continued support. Tax increment revenues for fiscal year 2012 covered approximately 65% of annual debt service.

Including legally available non-ad valorem General Fund revenues net of general government and public safety expenditures not supported by ad valorem revenues, total pledged revenues for fiscal year 2012 provided 8.0 times coverage of annual debt service and 4.6 times coverage of MADS, which will occur in 2034. This is the lowest coverage provided since the bonds were issued; however, fiscal year 2013 unaudited results indicate an increase in pledged revenues to 6.3 times MADS coverage. Debt service payments steadily increase through 2034. City officials anticipate the CRA will be able to support its operations by 2017 and fully support operations and debt service by 2019. Of note, the city includes support of CRA operations and debt service in its annual budget.

Adequate legal provisions for the bonds include a debt service reserve that is cash funded, an additional bonds test requiring pledged revenues to provide 1.25 times MADS coverage on outstanding and proposed debt, and an anti-dilution test of 1.5 times MADS.

MANAGEABLE DEBT BURDEN AND PENSION LIABILITY

The city's debt burden as of fiscal year 2012 is a manageable 1.04% of full value and should remain manageable given limited future debt issuance plans. The city's five year capital improvement plan uses cash, recurring revenues, and grants to fund capital projects. Payout for the outstanding limited tax general obligation bonds is slow with only 34.6% of principal retired within ten years. Likewise, payout on the community redevelopment revenue bonds is slow with only 23.2% of principal retired within 10 years.

The city participates in three different pension plans including the Florida Retirement System cost-sharing multi-employer defined benefit plan, the single employer defined benefit Municipal Police Officers and Firefighters' Pension Trust Fund, and a defined contribution plan that includes all employees hired after January 1, 1996. The city has consistently made the annual required contributions to both the statewide and single employer defined benefit contribution plans. Moody's fiscal year 2012 adjusted net pension liability (ANPL) for the city, under our methodology for adjusting reported pension data, is $28.5 million, or an average 1.22 times operating revenues. The three-year average of Maitland's ANPL to Operating Revenues is a moderate 0.98 times, while the three-year average of ANPL to full value is an average 0.91%. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace Maitland's reported liability information, but to improve comparability with other rated entities.

NEGATIVE OUTLOOK

The negative outlook on the limited tax bonds reflects our expectation that coverage will continue to be narrow. Future reviews will focus on improvements in the city's tax base corresponding to consistently improved MADS coverage provided by the 0.5 mills, the sufficiency of the actual levy to cover annual debt service, and the maintenance of satisfactory reserves.

WHAT COULD CHANGE THE RATING UP (Removal of negative outlook for the limited tax bonds)

- Significant tax base expansion

- Limited Tax: Consistently improved coverage provided by 0.5 mills

WHAT COULD CHANGE THE RATING DOWN

- Significant tax base contraction

- Substantial deterioration in financial position

- Limited Tax: Additional declines in coverage provided by 0.5 mills

KEY STATISTICS - Issuer Long Term Rating

FY 2014 Full Value ($000): $2,429,606

FY 2014 Full Value Per Capita: $152,701

Median Family Income as % of US: 158.5%

FY 2012 Operating Fund Balance as % of Revenues: 66.54%

5- Year Dollar Change in Fund Balance as % of Revenues: 25.70%

FY 2012 Operating Funds Cash Balance as % of Revenues: 72.73%

5-Year Dollar Change in Cash Balance as % of Revenues: 25.36%

Institutional Framework: A

5-Year Average Operating Revenues/Operating Expenditures: 1.04x

Net Direct Debt as % of Full Value: 1.04%

Net Direct Debt / Operating Revenues: 1.12x

3-Year Average ANPL as % of Full Value: 0.91%

3-Year Average ANPL / Operating Revenues: 0.98x

KEY STATISTICS - Limited Tax Bonds

FY 2014 Coverage: 1.04x MADS

FY 2012 Debt Service Fund balance: $901,951 (12.31% of MADS)

10 year payout: 34.6%

KEY STATISTICS - Community Redevelopment Revenue Bonds

Security: CRA tax increment revenues and pursuant to interlocal agreement, the city's covenant to budget and appropriate legally available non-ad valorem revenues

FY 2012 Pledged revenue coverage: 4.62x MADS, 8.0x annual debt service

10 year payout: 23.2%

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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