Moody's
INVESTORS SERVICE

Rating Update: MOODY'S DOWNGRADES CITY OF MAITLAND'S (FL) LIMITED AD VALOREM TAX BONDS TO Baa2 FROM Aa2; OUTLOOK IS NEGATIVE

Global Credit Research - 18 Jul 2011

AFFIRMS Aa1 LONG TERM ISSUER RATING AND Aa2 ON COMMUNITY REDEVELOPMENT REVENUE BONDS

Municipality
FL

Opinion

NEW YORK, Jul 18, 2011 -- Moody's Investors Service has downgraded the rating on $12.8 million of the City of Maitland's (FL) Limited Ad Valorem Tax Bonds, Series 2005, which are secured by city's limited ad valorem tax of 0.5 mills. Concurrently, Moody's has affirmed the city's long term issuer rating of Aa1 and its Aa2 rating $13.7 million of Series 2005 Community Redevelopment Revenue Bonds which were issued through the city's community redevelopment authority (CRA). The Limited Ad Valorem Tax bonds are secured by the city's limited ad valorem tax of 0.5 mills. The Community Redevelopment Revenue bonds are secured by tax increment revenue and, pursuant to an interlocal agreement, a city covenant to budget-and-appropriate legally-available non-ad valorem revenues to supplement any deficit in increment revenues available to pay debt service. The obligation of the city to deposit sufficient non-ad valorem funds to pay debt service in case of a shortfall in incremental revenues is absolute and unconditional, and lasts for the life of the bonds.

SUMMARY RATING RATIONALE

The downgrade to Baa2 on the limited ad valorem tax bonds reflects significant deterioration in coverage levels from the pledged limited tax due to pronounced tax base declines. The negative outlook reflects lingering tax base pressures from the recent correction in the housing market, which Moody's believes could translate to the further erosion of taxable values over the near term. Any additional decline in taxable values would result in a rating downgrade.

The affirmation of the Aa1 long term issuer rating reflects the city's strong financial management, above-average financial position as evidenced by sizable reserves, above average wealth levels, and low debt burden. The affirmation of the Aa2 rating on the Community Redevelopment Revenue Bonds reflects the credit characteristics of the city conferred by its obligation of the city, pursuant to an inter-local agreement, to deposit sufficient non-ad valorem funds to pay debt service in case of a shortfall in incremental revenues is absolute and unconditional, and lasts for the life of the bonds. The rating also reflects adequate legal protections which include a fully-funded debt service reserve and a 125% additional bonds test for tax increment bonds. Additional non-ad valorem bonds issued by the city would have to meet a 150% anti-dilution test.

STRENGTHS

-Sound financial management of the city as evidenced by multi-year operational surpluses and ample reserves

-Above-average wealth levels

-Low debt burden

CHALLENGES

-Maintenance of financial stability despite ongoing tax base pressures

DETAILED CREDIT DISCUSSION

NARROW COVERAGE ON LIMITED AD VALOREM BONDS DUE TO TAX BASE DECLINES

The limited tax bonds are secured by a voter approved 0.5 mill property tax that will be levied as long as debt issued under the $18.5 million bond authorization is outstanding. The city currently has another $1.7 million in borrowing capacity under the authorization. There is no additional bonds test. While coverage in the previous decade had been healthy, recent declines in the city's tax base have resulted in a significant erosion of coverage margins. In fiscal 2010, coverage on the bonds equaled 1.23 times (x) maximum annual debt service (MADS) compared to a fiscal 2009 peak of 1.34x due to an 8% decline in taxable values in fiscal 2010 from the year prior. Assuming a 95% collection rate, coverage is expected to further decrease to 1.07x MADS (1.08x annual debt service coverage) in fiscal 2011 reflecting another 13% decline in taxable values. Although coverage is expected to remain stable in fiscal 2012 based on the city's preliminary 2011 taxable value (effective for fiscal 2012), which was essentially flat from fiscal 2011 due to a new development along Lake Lily, Moody's estimates that the city's tax base can sustain another 6.9% decline from fiscal 2012 before deteriorating below 1.00x annual debt service coverage and 6.7% on a maximum debt service basis, which Moody's considers to be a key rating driver. Moody's notes that the city has accumulated $23,095 as of fiscal 2010 in excess pledged property tax collections from the dedicated millage and investment earnings. The additional Debt Service Fund is also available to pay debt service and would somewhat ameliorate tax base declines beyond 6.9%. There is no debt service reserve fund.

Discounting the first debt service payment which reflected two years of property tax collection, annual debt service payments on the bonds are fairly level averaging $899,000 with MADS occurring in fiscal 2022 at $902,000. Annual payments on these bonds represent approximately 4% of General Fund spending and 58% of total debt service payments across all the city's debt obligations, including its CRA debt.

CITY'S NON-AD VALOREM COVENANT PROVIDES BASIS FOR BOND SECURITY ON CRA BONDS

Moody's believes that the city's covenant pledge provides a strong basis of support for bondholder security. While the original issue of the bonds had assumed transfers from the city for debt service payments for a few years, the CRA has continued to rely on these transfers due to the housing market dislocation and underperformance of CRA taxable values. The definition of "Pledged Funds" includes both the tax increment revenues and funds transferred from the city, pursuant to an interlocal agreement, defined in that agreement as a covenant to budget-and-appropriate legally-available non-ad valorem revenues. The obligation of the city to deposit sufficient non-ad valorem funds to pay debt service in case of a shortfall in incremental revenues is absolute and unconditional, and lasts for the life of the bonds. The Agency's board consists of the city's council members and an additional member from Orange County. Since the city and CRA's tax cycle is identical, officials will know in advance of budget adoption and based on the certified tax roll and tax rates to be assessed by the city and county, whether there will be a shortfall in tax increment revenues annually. This will allow the city to incorporate required debt service payments into their budget prior to adoption, without the need for an emergency appropriation. Moody's notes that the city currently designates $1.5 million of its reserves for CRA debt service payments which have increased from $340,000 in fiscal 2006 to $777,000 in fiscal 2012 and will slowly escalate to MADS in 2034 at $1.3 million, the bonds' final maturity. In addition, the CRA will maintain a debt service reserve on this issue.

Debt service on these bonds represented about 3% of General Fund expenditures in fiscal 2010 or 25% of the city's available non-ad valorem revenues after general government and public safety expenditures.

Reflecting the economically sensitive nature of non-ad valorem revenues, the city's available non-ad valorem revenues have declined continually since fiscal 2007 for a total decline of 62% through fiscal 2010. Major sources for non-ad valorem revenues include utility taxes and franchise fees which each represent 14% of fiscal 2010 non-ad valorem revenues, sales tax (11%), and charges for services (13%). Moody's believes that the availability of non-ad valorem funds is further enhanced by the city's favorable financial characteristics that include ample reserves.

CITY'S WELL-MANAGED FINANCES ENHANCE NON-AD VALOREM PLEDGE ON CRA BONDS

Moody's expects that the city's growing tax revenues and proven ability to control expenses will continue to sustain favorable operating performance. The city has experienced operating surpluses since fiscal 2005 resulting in a fiscal 2010 unreserved fund balance of $15.1 million or 66.6% of General Fund reserves, well above the city's policy to maintain 10% of the expenditure budget in an emergency reserve held in the General Fund. The city's consistent favorable operating results are attributable to conservative revenue assumptions coupled with diligent monitoring of expenditures and containment of personnel costs through forgoing wage increases, attrition, and a hiring freeze of non-essential positions.

The fiscal 2011 budget (fiscal year end September 30) included a 6% reduction in overall spending due mainly to savings realized from reduced positions in the prior years and other line item reductions and a modest planned draw of approximately $591,000 for vehicle replacement. Based on year-to-date results, management expects to be able to replenish the $591,000 use of fund balance and end the year with balanced operations. The revenue base is fairly diverse, with property taxes as the largest revenue source, consisting of about 36% of budgeted revenues and another 32% of revenues coming from utility taxes, franchise fees, communication services and sales taxes. The fiscal 2012 budget is partially balanced with $608,000 designated reserves for vehicle replacement that Moody's does not consider to be material and essentially flat from fiscal 2011 with increases in health care and pension costs offsetting savings in salaries.

MULTI-YEAR TAX BASE DECLINES

While the city has historically benefitted from its location in Orange County (issuer rating of Aa2) within the Orlando (issuer rating of Aa1) MSA and its diverse tax base, the recent housing market disruption has resulted in three consecutive years of market value declines. Fiscal 2012's $2.5 billion tax base represents a 24% decline from its fiscal 2009 peak. While the built-out nature of the city has insulated some of the declines associated with speculative building in other regions, the city's tax base has still been vulnerable to declines in commercial values and decreases in office occupancy. Over the past years, tax base declines have averaged an annual 2.7% compared to average annual increases of 9.5% earlier in the decade. While city officials report recovery in the commercial sector, Moody's expects tax base pressures to continue on the residential side due to lingering effects of the recent recession.

Wealth levels remain above average with per capita income at 173% of state and national norms and median family income at 152% and 139% of state and national averages respectively.

MANAGEABLE CITY DEBT POSITION

Moody's believes that the city's manageable debt position, reflected by a modest direct debt burden of 0.9% will decrease as the city is an infrequent issuer of debt. The overall debt burden of 2.3% is moderate due to the city's share of the debt of overlapping entities, including the county and the county-wide school district. The city does not anticipate additional borrowing at the present time. Annual debt service costs including payments associate with both the limited ad valorem and CRA bonds are affordable at 7% of fiscal 2010 General Fund expenditures. All of the city's debt is fixed rate and is not a party to any derivative products.

Outlook

WHAT COULD MAKE THE RATING GO UP

-Significant improvement of the underlying tax base

-Limited GO Rating: increased coverage margins

WHAT COULD MAKE THE RATING GO DOWN

-Significant financial deterioration

-Decrease in tax base

-Limited GO Rating: Continued decrease in coverage margins generated by the city's 0.5 mills

KEY STATISTICS

LIMITED AD VALOREM

Security: 0.5 mill property tax levy

Fiscal 2010 coverage: 1.23x MADS

Fiscal 2011 coverage: 1.07x MADS (estimated)

Fiscal 2012 coverage: 1.07x MADS (projected)

10-year Payout: 31%

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.

Fiscal 2010 Pledged Revenue coverage: 2.21x MADS

10-year payout: 17.9%

COUNTY DATA

2010 population: 16,786

Fiscal 2012 Full Value: $2.5 billion

Per capita income: $37,390 (173% of state and nation)

Median family income: $69,504 (152% of state; 139% of nation)

Net direct debt burden (Overlapping): 0.9% (2.3%)

FY 2010 Total fund balance: $25 million (110% of General Fund revenues)

FY 2010 Unreserved fund balance: $15.1 million (66.6% of General Fund revenues)

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology .

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the credit rating are the following: parties involved in the ratings and public information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see ratings tab on the issuer/entity page on Moodys.com for the last rating action and the rating history.

The date on which some Credit Ratings were first released goes back to a time before Moody's Investors Service's Credit Ratings were fully digitized and accurate data may not be available. Consequently, Moody's Investors Service provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

Analysts

Dora Lee
Analyst
Public Finance Group
Moody's Investors Service

John Incorvaia
Backup Analyst
Public Finance Group
Moody's Investors Service

Julie Beglin
Senior Credit Officer
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA