

Tax Supported
New Issue

City of Maitland, Florida

Ratings

New Issue

Community Redevelopment Revenue
Bonds, Series 2005A+

Outstanding Debt

Limited Tax General Obligation
Bonds.....A+
Unlimited Tax General
Obligation Bonds*AA
Rating Outlook Stable

*The 'AA' is an implied rating.

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See page 2 for New Issue Details.

■ Outlook

The 'A+' rating primarily reflects the City of Maitland's covenant to budget and appropriate (CB&A) available non-ad valorem revenues to fund debt service should tax increment revenues, the primary source of bond security, be insufficient. Non-ad valorem revenues provide ample coverage of debt service. The rating also reflects the general credit characteristics of the city, including strong financial management, above-average wealth indicators, a stable and largely commercial tax base, and a low direct debt burden; these factors have resulted in an implied 'AA' rating on the city's unlimited tax general obligations.

The CB&A pledge, which is subordinate to any future city debt secured by all or a portion of non-ad valorem revenues, is by an interlocal agreement between the city and the Community Redevelopment Agency (CRA) of the City of Maitland. The bonds are the first to be issued by the CRA and are anticipated to be secured by ad valorem tax increment revenues generated within a 200-acre downtown redevelopment district. However, substantial growth must take place in the district for sum-sufficient coverage from tax increment revenue to be attained, and Fitch Ratings expects the city's CB&A pledge to be the primary source of security for debt service over the next few years.

■ Rating Considerations

Non-ad valorem revenues, consisting of franchise fees, utility taxes, a communications services tax, state-shared revenues, and a local option gas tax, are up an average 5% annually since fiscal 2000, inclusive of unaudited fiscal 2005 results. The overall gain masks steady declines in the communication services tax, which represents 20% of such revenues.

The city will be reimbursed for prior advances to the CRA in an approximate amount of \$1.4 million from proceeds of this offering. Maitland plans to hold these funds in reserve to pay expected debt service transfers to the CRA; the city anticipates that this reserve will fully support its CB&A pledge until the redevelopment area matures, without the need for additional general fund appropriations. Fitch believes that the city's obligation to pay net debt service from non-ad valorem revenues does not place undue strain on its general fund, as projected maximum annual debt service (MADS), without consideration of any tax increment revenue, is equal to a manageable 6.4% of audited fiscal 2004 general fund spending. The city has no other debt outstanding that is secured by non-ad valorem revenue, although Fitch notes that any potential shortfalls in collections from a 0.5-mill tax levied for limited tax general obligation bonds sold in June would represent a general fund commitment.

New Issue Details

Approximately \$13,615,000 Community Redevelopment Revenue Bonds, Series 2005, are expected to sell during the week of Nov. 28 via negotiation with JP Morgan Securities and Gardnyr Michael Capital, Inc.

Security: The bonds are secured by pledged funds, including ad valorem tax increment revenues generated within a 200-acre redevelopment area, and a guaranty by the City of Maitland to pay debt service as needed from available non-ad valorem revenues. Maitland covenants to budget and appropriate non-ad valorem revenues as they are available for transfer to the Community Redevelopment Agency to meet debt service.

Purpose: Bond proceeds will be used to finance the construction and related costs of road work and for stormwater management projects within the redevelopment area.

Bond proceeds will be used to fund road and storm drainage improvements in the redevelopment area. Tax increment derived from the area currently is less than \$300,000 based on taxable assessed valuation (TAV) growth since the fiscal 2002 base year. Several projects are approved or in planning stages, but the city does not expect tax increment to reach 1.0 times (x) coverage of these bonds until fiscal 2011. The city and Orange County will pay ad valorem taxes to a city-held redevelopment trust fund by Jan. 1 annually. The county has not passed a resolution granting its tax increment to the CRA but is expected to do so shortly. There is ample time between the billing and collection of taxes and the debt service due date for the city to appropriate non-ad valorem revenue to meet its debt service commitment. Additional CRA parity bonds require compliance with a historical additional bonds test calling for 1.25x MADS coverage from tax increment revenues. No additional borrowing is planned at this time. Additionally, city issuance of bonds secured by non-ad valorem revenues, or a portion thereof, requires compliance with an antidilution test of 1.5x MADS on these CRA bonds and the city's bonds.

Maitland is northeast of Orlando, FL, in Orange County. Although there is a large residential component to the economy, more than 50% of TAV is nonresidential. Varied employment opportunities are derived from the city's own job base, reportedly about twice the city's population of 16,467, and from other establishments in and around Orlando. Tax base

growth was flat in fiscal 2005, but projections for fiscal 2006 show growth of roughly 5%. Per capita money income of city residents exceeds that of Orange County and the state. Financial reserves are high and will get a modest boost with the small surplus projected for fiscal 2005.

■ Strengths

- Strong coverage of debt service by non-ad valorem revenues.
- Strong financial management and planning.
- High general fund balance.
- Low direct debt and comprehensive capital plan.
- Above-average wealth indicators.
- Substantial commercial tax base.

■ Risks

- Non-ad valorem pledge is subordinate to future city bonds secured by the same revenue.
- Economic diversification is still evolving.
- Slow amortization of direct debt and above-average overlapping debt.

■ Community Redevelopment Agency and District

In May 2002, the city, in conjunction with Orange County, created a CRA within the city's downtown area to achieve what was laid out in the 1997 Downtown Maitland master plan, which was revised again in 2003. Within the CRA, the city and county's portion of the general millage of this area will be reinvested back into the \$74 million of projects identified for the downtown revitalization, generating approximately \$37 million through fiscal 2035. The projects to be funded include: transportation improvements to ease traffic congestion and create a pedestrian-friendly environment; infrastructure improvements, including placing utility lines underground; and streetscaping. Additionally, the city is investing in the construction of a new public safety building and city hall, which is being financed with \$15 million of limited tax general obligation bonds issued in June 2005. The remaining funds will be provided by intergovernmental grants and partnerships with developers and property owners.

■ Security Provisions

Pledged Funds: The primary security for these bonds is a pledge of tax increment revenues. As additional security, the city covenants to budget and appropriate legally available non-ad valorem revenues to pay debt service.

Historical Non-Ad Valorem Revenues

(\$, Fiscal Years Ended Sept. 30)

	2000	2001	2002	2003	2004	2005*
Local Option Gas Tax	417,708	400,134	476,707	507,662	564,924	612,790
Franchise Fees:						
Gas	12,332	16,069	17,767	8,851	10,981	5,339
Electric	1,052,567	1,220,832	1,203,118	1,333,542	1,424,062	1,592,959
Telephone	68,764	70,252	0	0	0	0
Cable	103,721	136,751	0	0	0	0
Solid Waste	27,048	20,953	9,453	11,500	15,629	17,503
Utility Taxes:						
Gas	14,956	16,041	12,637	12,970	20,196	17,193
Electric	1,419,491	1,522,373	1,509,009	1,651,274	1,623,567	1,712,128
Telephone	1,663,667	1,715,736	0	0	0	0
Fuel	1,563	2,020	1,160	2,736	1,303	1,062
Communications Services Tax	0	0	2,391,577	2,214,566	1,882,149	1,721,268
Occupational License Fees	128,803	133,837	128,731	145,186	156,351	160,388
State Revenue Sharing	265,730	293,247	298,248	331,532	387,882	558,526
State Sales Tax	1,384,393	1,559,931	1,677,515	1,823,133	2,065,118	2,156,839
Court Fines	338,299	314,634	286,478	246,683	275,430	238,168
Total Revenues	6,899,042	7,422,810	8,012,400	8,289,635	8,427,592	8,794,163
MADS Coverage (x)**	5.00	5.38	5.81	6.01	6.11	6.38

*Unaudited; data as of Oct. 25, 2005. **Maximum annual debt service (MADS) of \$1,378,775 occurs in fiscal 2034. Note: The franchise fees and utility taxes for telephone and cable services were eliminated when the local communications services tax was enacted on Oct. 1, 2001.

Source: City of Maitland finance department.

Tax increment revenues consist of 95% of ad valorem taxes levied by the city and Orange County on properties located within the redevelopment district over and above that amount levied in the base year. Other ad valorem taxes are levied within the redevelopment area, but these revenues are exempt from paying tax increment to the CRA. The city has adopted a resolution authorizing the payment of tax increment to the CRA for the term of the bonds, and Orange County is expected to do the same but has not yet passed a resolution. By law, participating governmental units are required to appropriate 95% of tax increment revenue to the CRA by Jan. 1 of each year, irrespective of actual receipt of taxes from real property owners. TAVs in the redevelopment area will be known, net of any appeals, by the time payment is due to the CRA, reducing estimation risk. Collection of delinquent taxes is the responsibility of the participating general governments and does not affect the payment due to the CRA.

Pursuant to an interlocal agreement between the city and the CRA, the city's covenant to make up any shortfall in tax increment revenue to pay debt service is subordinate to other future city debt secured by non-ad valorem revenues or any portion thereof. The CRA bonds do not have a lien on any of Maitland's non-ad valorem revenues, unless or until such time as funds are appropriated for transfer to the CRA for debt service.

Additional Bonds and Antidilution Tests: The CRA may issue additional parity obligations secured by the tax increment revenue subject to an additional bonds test that requires tax increment revenue to meet or exceed 125% of MADS from revenues in 12 consecutive months out of the previous 24 months. There is no parity debt additional bonds test regarding the sufficiency of the non-ad valorem bond covenant, since a new interlocal agreement would be required for each subsequent series of parity bonds.

Additionally, the interlocal agreement for the series 2005 bonds requires that the city, prior to issuing any bonds secured by non-ad valorem revenues or portions thereof, affirm by certificate to the CRA that available revenues in any 12 consecutive months out of the past 18 months exceeded MADS on the CRA bonds and any city bonds payable solely from non-ad valorem revenues by 1.5x.

Reserve Account: A reserve account is required by the bond resolution in an amount consistent with current federal tax law. The reserve requirement will be met through purchase of a surety policy at closing.

■ Revenue Sufficiency

From Tax Increment: The Maitland redevelopment area's base year was fiscal 2002, and the base year TAV of real property was \$90.2 million. Modest growth in

TAV has occurred to date, and the fiscal 2006 TAV totaled \$123.2 million. The combined tax rate for both the city and Orange County that applies within the district is 8.9 mills. Therefore, fiscal 2006 tax increment revenue is budgeted to be approximately \$280,000, well below both annual debt service and MADS on the bonds.

The city hired a consultant to study TAV growth prospects in the redevelopment area. Based on this analysis and a prudently conservative approach to the pace of development for a large town center project, the city believes that tax increment revenue could rise to \$817,000 by fiscal 2011, which would provide 1.05x coverage of debt service in that year. Fitch believes that while the plan appears reasonable, significant risk remains that growth within the redevelopment area leading to self-support could take longer than planned. City non-ad valorem contributions will likely be sizable over the next several fiscal years.

From Non-Ad Valorem Revenues: The non-ad valorem revenues made up, in the aggregate, 39% of the city's fiscal 2004 general fund revenues. The four largest sources are state-shared sales tax at 25% of the \$8.4 million in non-ad valorem receipts, followed by the communications service tax at 22%, the

electric utility tax at 19%, and the electric franchise fee at 17%. Overall, non-ad valorem revenue growth averaged 5.0% annually since fiscal 2000 and 5.8% per year since fiscal 1995. Collections from the communications service tax have fallen each fiscal year since the tax was implemented in fiscal 2002, falling 28% in total over that period. Nevertheless, city non-ad valorem collections for fiscal 2005 (unaudited) provided very sound coverage of pro forma MADS, at 6.38x.

The interlocal agreement requires the CRA to reimburse the city for any advances made to it for project costs or debt service. Approximately \$1.4 million of the proceeds of these bonds will be paid to the city for funds previously advanced. The city expects to reserve these funds to offset the cost of likely future appropriations of non-ad valorem revenue required to cover debt service. If the pace of TAV growth in the redevelopment area falls reasonably close to the city's forecast, additional appropriations might not be necessary.

For additional information, see Fitch Research on "City of Maitland, Florida," dated June 13, 2005, available on Fitch's web site at www.fitchratings.com.

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