

Tax Supported
New Issue

City of Maitland, Florida

Ratings

Limited Tax General Obligation Bonds,
Series 2005 A+
Implied General Obligation Bonds AA
Rating Outlook Stable

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New Issue Details

Approximately \$15,665,000 Limited Tax General Obligation Bonds, Series 2005, are expected to sell later this month via negotiation with JP Morgan Securities and Gardnyr Michael Capital, Inc.

Security: The limited tax bonds are payable from a voter approved ad valorem tax not to exceed 0.5 mills.

Purpose: Bond proceeds will be used to finance the construction and related costs of a new city hall and public safety building and to refund outstanding bank loans used to construct a west side fire station and public works yard.

Outlook

The 'A+' limited tax general obligation (LTGO) bond rating reflects the limited flexibility in the early years of the debt service payments on these bonds as well as the general credit characteristics that result in the implied 'AA' rating on the city of Maitland's unlimited tax general obligation (UTGO) bonds. The latter includes strong financial management, above-average wealth indicators, a stable and largely commercial tax base, and a low direct debt burden. Population growth has been strong but is expected to stabilize as the city is close to build-out and annexation opportunities are complete. City residents passed a referendum to build a new city hall and public safety building — to be funded with this offering — as the catalyst to revitalizing its downtown, which should aid in taxable assessed valuation (TAV) growth that was virtually flat for fiscal 2005. The city's use of pay-as-you-go capital funding and limited planned additional tax-supported debt of \$3 million in completion bonds should keep direct debt levels manageable. Consistent with the Stable Rating Outlook, Fitch Ratings expects financial operations to return to positive levels in fiscal 2005.

Rating Considerations

The city will levy the maximum 0.5 mills for fiscal years 2005 and 2006 to repay the LTGO bonds and is projecting 1.0 times (x) coverage initially through fiscal 2007. However, TAV estimates for fiscal 2006 are 3% greater than the projections, resulting in slightly higher but still slim coverage. The anticipated tax base growth and the city's expressed willingness to use other available moneys to repay the bonds in the event the 0.5 mills is insufficient somewhat mitigate Fitch's concern regarding the low coverage ratios.

The city of Maitland is northeast of Orlando, in Orange County. Although there is a large residential component to the economy, more than 50% of TAV is nonresidential. From the 2000 census, the city's per capita money figures exceed those of Orange County and the state. The city's high TAV per capita of \$111,482 reflects the large commercial tax base as well as the above-average residential wealth. Varied employment opportunities derive from the city's own job base, reportedly about twice the city's population of 16,476, and from other establishments in and around Orlando. Tax base growth was flat in fiscal 2005 but projections for fiscal 2006 show roughly 5% growth.

Financial management and operations are strong. A strong unreserved general fund balance equal to 29% of spending in fiscal 2004 includes a number of designations specified by financial policies included in the budget document. This figure is somewhat deflated by the nearly \$4 million of spending accrued into fiscal 2004 related to the hurricane activity late last summer. About 4% of fiscal 2005 budgeted expenditures are for capital projects, down from 10% in the prior year due to a

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reprioritization of capital projects based on citizen input. Low tax rates provide additional flexibility.

Capital planning is also very strong, and the city has only a minimal amount of debt outstanding, which will be refunded by the current offering. As a result, direct debt levels are low at less than 1% of TAV and \$951 per capita. Overlapping debt of Orange County and the school system bring overall debt levels to the above average range. The current five-year capital improvement plan (CIP) for fiscal years 2005–2009 is funded entirely on a pay-as-you-go basis. Future debt needs will be addressed as part of the fiscal 2006 budgetary process, but no additional UTGO bonds are anticipated.

■ Strengths

- Slim coverage of pledged revenues in the beginning years of debt service repayment, with limited flexibility.
- 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

- Economic diversification still evolving.
- Slow amortization of direct debt and above-average overlapping debt.

■ Debt

Direct debt for the city is low at 0.85% of TAV and \$951 per capita. Prior to this issuance, the city had no general obligation debt outstanding other than a 15-year bank loan payable from general fund sources to fund the purchase of and improvement to land for a fire station, public works yard, and recreation area. The bank loan matures in 2017 and \$3.2 million in principal remains at the end of fiscal 2005, which the city plans to refund with the current offering. Amortization of the city's bonds is slow at 39% in 10 years, but this is consistent with the city's policy to issue debt to match the useful life of the projects. Including overlapping debt of Orange County and Orange County School District, the city's total debt levels are more moderate at 4.5% of TAV and \$4,970 per capita.

The current issuance will finance primarily the acquisition and construction of a new city hall and public safety building in the downtown area in

Debt Statistics

(\$000)

This Issue	15,665
Outstanding Debt	<u>0</u>
Direct Debt	15,665
Overlapping Debt	<u>66,225</u>
Total Overall Debt	81,890

Debt Ratios

Direct Debt per Capita (\$)*	951
As % of TAV**	0.85
Overall Debt per Capita (\$)*	4,970
As % of TAV**	4.46

*Population: 16,476 (2004 estimate).

**Taxable assessed valuation (TAV): \$1,836,771,000 (2005 estimate).

conjunction with the city's revitalization efforts (*see Community Redevelopment Agency on page 3*). Voters approved a referendum in July 2004 by 61% for the issuance of up to \$18.5 million in limited tax bonds for the projects, including the refunding. Up to 0.5 mills per year on all taxable property within the city can be used for the repayment of the bonds. The city can use other available funds in the event that the 0.5 mills is insufficient, but the bonds do not constitute a full faith and credit pledge nor can bondholders compel the city to levy additional taxes to fund repayment of the bonds. The city plans to issue the remaining \$3 million authorized to complete the city hall in fiscal 2007, but only if pledged revenues are sum sufficient.

Coverage of the bonds is slim and projections show only 1.0x coverage through fiscal 2007, improving to 1.2x by fiscal 2008. However, based on estimates received by the county assessor for fiscal 2006, the actual revenue is projected to equal \$963,000, or \$74,000 (8%) more than the original forecast, bringing coverage to a slightly better 1.06x. However, by fiscal 2007 the city projects that it will be able to reduce the tax rate to 0.47 mills, giving it additional flexibility.

The city annually prepares a five-year CIP, which indicates a high level of planning and detail for a community this size. The CIP for fiscal years 2005–2009 totals \$77.3 million, of which 48% will come from the community redevelopment area fund (*see Community Redevelopment Agency on page 3*), 17% from road impact fees, 11% from the general fund, 3% from the utilities fund, and the remaining portion from the solid waste fund. The current plan does not reflect any future debt needs, but city officials report that the fiscal 2006–2010 plan may incorporate debt needs related to the community

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Sept. 30)

	2002	2003	2004
Revenues	16,385	17,556	21,575
Expenditures	15,666	17,435	21,581
Net Change	720	120	(6)
Transfers In	546	253	281
Transfers Out	(650)	(3,747)	(357)
Other Uses	0	0	0
Net Income	615	(3,374)	(82)
Total Fund Balance	13,913	10,540	10,458
As % of Expenditures, Transfers Out, and Other Uses	85.3	49.8	47.7
Unreserved Fund Balance	10,034	8,916	6,457
As % of Expenditures, Transfers Out, and Other Uses	61.5	42.1	29.4
Unreserved, Undesignated Fund Balance	1,555	736	2,233
As % of Expenditures, Transfers Out, and Other Uses	9.5	3.5	10.2

Note: Numbers may not add due to rounding.

redevelopment area supported by tax increment revenues and additional utility bonds. In total, about \$50 million in additional bonds are anticipated, but none with direct general fund support. The city annually designates a portion of its large fund balance for capital outlay.

■ Community Redevelopment Agency

In May 2002, the city in conjunction with Orange County created a Community Redevelopment Agency (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 worth of projects identified for the downtown revitalization, generating approximately \$37 million through 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 will be financed with the current offering, and is pursuing CRA bonds payable from tax increment revenues of the area to finance road extension and improvements. The remaining funds will be provided by intergovernmental grants and partnerships with developers and property owners.

■ Finances

Financial management and performance are very strong. The annual budget includes revenue and expenditure projections, incorporates funding needs

indicated in the CIP, and reports on attainment of established performance goals for each department. In addition, officials distribute a financial snapshot, which reports the quarterly performance of the budget to the mayor and city council. Financial and debt management policies are described in detail in the budget document, including the establishment of fund balance designations as follows: emergencies/disasters, \$1.79 million, matching grants, \$200,000, and operating contingencies, \$150,000.

In fiscal 2003, the city used about \$5 million from the general fund to help fund the west side fire station and public works yard, in addition to the notes issued (*see Debt on page 2*). The result was a drawdown of general fund balance of about \$3.4 million, which took the unreserved fund balance to 42% of spending from 62% of spending the prior year. The city has a history of accumulating prior year's surplus in the general fund for one-time capital needs.

Fiscal 2004 ended with a slight drawdown of \$82,100, which incorporates the impact of the active hurricane season in August and September. Approximately \$4 million worth of damage was recorded, primarily consisting of debris removal. The city is eligible for up to 95% reimbursement from the Federal Emergency Management Agency and the state, and both revenues and expenditures were accrued in fiscal 2004 related to the storm cleanup. The unreserved general fund balance equaled \$6.5 million, a strong 29.4% of spending, but somewhat deflated given the increase in expenditures related to the storm cleanup. In conformance with its financial policies, most of the fund balance is designated. The total fund balance equaled

Debt Service Coverage Projections

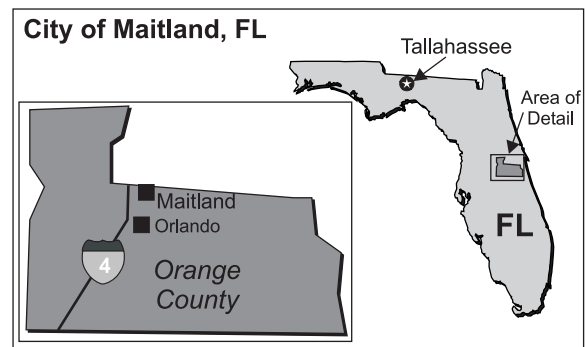
(\$000, Fiscal Years Ended Sept. 30)

	Mill	Annual Debt Service	Projected Revenues	Coverage (x)
2005	0.5	—	872	—
2006	0.5	1,741	889	1.011
2007	0.5	865	870	1.006
2008	0.5	862	996	1.155
2009	0.5	863	1,120	1.298
2010	0.5	863	1,118	1.295
2011	0.5	863	1,119	1.297
2012	0.5	863	1,120	1.298

\$10.5 million, or 47.7% of spending, in fiscal 2004 and includes \$3.5 million advanced for the design of the new public safety building and city hall, which will be reimbursed with this offering, and road improvements and design related to the CRA, which will be reimbursed with future bond proceeds from the CRA.

Sound operations and strong TAV growth allow Maitland to maintain low property tax rates. The current rate is \$4.30 per \$1,000 of TAV, increased from \$3.80 for fiscal 2004 as a result of the referendum. Recent annexation of the western portion of the city resulted in significant TAV growth for fiscal 2004 of almost 15%. TAV has grown an average annual 6.7% over the past five fiscal years. However, fiscal 2005 TAV grew less than 1%, reportedly due to the deflation of the commercial office buildings as a result of the downturn in the economy, which lagged a few years before it hit the tax roll. The creation of the CRA and the city's move to construct a new city hall and public safety facility is projected to spur development in the downtown area, which is likely to improve tax base growth over the next few years. Estimates for fiscal 2006 show TAV increasing about 5% and growth should continue as about \$234 million in private investment outside of the CRA is scheduled to hit the tax roll from fiscal 2007–2009.

Fiscal 2005 is under way and all revenues are performing as expected, except for communication services taxes (CST). Reportedly the CST has been impacted from the changing telecommunications market and revenues have declined since fiscal 2002, which was the first year of the tax. The city conducted a midyear budget adjustment to incorporate the drop in revenue, which as of March 2005 is about \$120,000 below the level in the same period of the prior year, but has also achieved health insurance savings to help offset the drop in revenues. As in the past, expenditures are projected to come in below budget.



The city has significant financial flexibility because of its low tax rate, its solid fund balances, and use of pay-as-you-go capital funding.

■ Economy

The city of Maitland is northwest of Orlando, in Orange County. The population grew 35% in the 1990s to 12,019, according to the 2000 census. Officials estimate that the city is nearly built-out as mainly in-fill developments remain and major annexations are complete. In 2002, the city annexed the Arbors development (including a 663-unit residential development) on the west side of town, which also includes commercial property, and in 2003 annexed the Dommerich Hills development, which added 433 single-family homes. As a result, population was estimated to be 16,476 in 2004, or a 42% change over the 2000 census.

Although much of the city is residential, more than one-half of TAV is nonresidential. The western portion is dominated by business parks that reportedly include 8 million square feet of space and employ 25,000. The office vacancy rate averages 10%–15%. The 10 largest taxpayers are mainly the owners of these large office centers and comprise about 16% of TAV.

Major employers in Maitland include CNA Insurance, Charles Schwab and Co., EA Sports, and FDN Communications. In addition to the substantial employment opportunities in the city, many residents commute to Orlando. No unemployment data exist for the city, but Orange County's unemployment is low at 4% as of March 2005, which is down from the high 5.7% average for 2002 during the economic downturn resulting in a tourism drop. Above-average wealth levels and the large commercial base are evidenced by a high TAV per capita of \$111,482. Orange County's income levels are in line with state and national averages.

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