

MOODY'S AFFIRMS A2 RATING ON DAYTONA BEACH (FL) REDEVELOPMENT AGENCY'S \$35.1 MILLION CAPITAL REVENUE BONDS, 2001 SERIES C-1, AND CITY OF DAYTONA BEACH'S \$3.2 MILLION CAPITAL REVENUE BONDS, 2001 SERIES C-2

Moody's Investors Service has affirmed the A2 rating on \$35.1 million Daytona Beach Redevelopment Agency 2001, Series C-1 and \$3.2 million City of Daytona Beach Capital Revenue Bonds 2001, Series C-2. The Series C-1 bonds are secured by the tax increment revenues and city non-ad valorem revenues. The Series C-2 bonds are secured by non-ad valorem revenues. The A2 ratings are ultimately based on the city's covenant to budget and appropriate from legally-available non-ad valorem revenues. Further, the Agency's ability to support its debt from tax increment revenues alone is a positive credit factor. The A2 ratings are also supported by the city's established tourism driven economy, stable financial position and modest debt burden with no planned additional borrowing.

SIGNIFICANT AVAILABLE REVENUES TO REPAY COVENANT BONDS

Available non-ad valorem revenue of approximately \$31.9 million in fiscal 2008 provide ample revenues to meet \$3.1 million maximum annual debt service (2010) on city and Agency non-ad valorem bonds. Non-ad valorem revenue has grown at an annual average of 6.8% since 2003. The growth has been driven largely by tourism-related revenue but due to the current depressed economic environment and lack of consumer spending, has experienced a modest contraction. Non-ad valorem funds are an important component supplementing property tax revenues used to pay essential general government and public safety expenditures. Given lack of additional borrowing plans and tax increment support for Agency bonds, Moody's expects non-ad valorem revenues will continue to provide ample support for debt service despite softening in major city operating funds.

STRONG GROWTH IN THE PROJECT AREA AND SOLID COVERAGE OF DEBT SERVICE

The Redevelopment Agency's Main Street Community Redevelopment District's tax base grew from \$152 million in fiscal 2000 to \$677 million in fiscal 2006 or by 58% on average annually. From fiscal 2007 to fiscal 2009 assessed value declined by a modest 5.1% to \$642 million; further declines of approximately 18.5% in assessed value are expected in fiscal 2010 based on preliminary property tax values for the City of Daytona Beach due to property tax reform and the housing market correction. Since 2004, tax increment revenues have generated an average of 3.0 times coverage; however, given expected declines in assessed value, coverage is likely to weaken to 1.9 times in 2010. Debt is amortized at a below average rate with 37.9% of debt retired in 10 years.

ADEQUATE LEGAL STRUCTURE

Daytona Beach and the Community Redevelopment Agency of the City of Daytona Beach (CRA), have entered into loan agreements with FIFC specifying the source of repayment (tax increment and non-ad valorem revenues), and events of default, which

primarily include failure to repay the loan in a timely fashion, failure to observe covenants, false representation affecting taxability, and participant bankruptcy, insolvency and default. Basic (including debt service) and additional payments are to be made directly to the trustee on the 15th day of the month preceding each bond interest payment date from legally available tax increment and/or non-ad valorem revenues. The fixed rate bonds are amortized annually through 2021 (Series C-2) and 2031 (Series C-1).

The Series C-1 loan is paid by the CRA, which is composed of the same officials as the city, from tax increment revenues. Pursuant to an interlocal agreement between the city and CRA, the city must make up for any deficiency in tax increment from its own non ad valorem revenue, by amendment if necessary. And this obligation of the city is absolute and unconditional. While Moody's recognizes that there could be a potential delay in assigning non ad valorem revenues to the Series C-1 bonds, this is balanced against the city's favorable cash and equity position, the presence of a debt service reserve, and recognition that city officials compose the CRA's board. Also, this mechanism of making up deficiencies in expected repayment sources, is not unusual for obligations ultimately backed by the non-ad valorem covenant.

TOURISM DRIVEN ECONOMY EXPERIENCES CONTRACTION

Moody's expects Daytona Beach's \$8.1 billion economy to exhibit additional softening in line with national and regional trends, but anticipates long-term stability for this community. Assessed values grew at an average 19.5% annually from 2002 through 2008, accelerating over the period. The strong growth was primarily driven by strong market appreciation and a combination of residential and commercial development; the latter primarily encompassing retail and hotel construction to support the city's tourism industry. However, assessed value declined in 2009 from \$5.4 to \$5.2 billion and preliminary assessed value for fiscal 2010 indicates an 18.47% decline to \$4.3 billion. However the city has some continued commercial projects scheduled for construction. While current market conditions are expected to temper near-term growth, longer-term the city maintains favorable growth potential. Resident incomes are below state levels, with 1999 per capita income and median family income at 81% and 74% of Florida medians, respectively.

STABLE FINANCIAL POSITION

Despite new revenue raising constraints under the recently enacted statewide property tax reform, Moody's expects management's adherence to formalized financial policies will facilitate continued financial stability. To offset revenue loss, management reduced expenditures and effectuated a \$2.7 million increase to General Fund reserves, with undesignated fund balance rising to nearly \$10.4 million or an improved 13.7% of General Fund revenues in fiscal 2008. The total fund balance in fiscal 2008 was \$11.7 million or 15.5%. Management reports that the operations will remain in compliance with the city's recently revised fiscal integrity ordinance which requires undesignated fund balance be maintained at 10% of budgeted operations. Fiscal 2009 General Fund balance is expected to be \$8.4 million.

MODERATE DEBT BURDEN WITH LIMITED FUTURE DEBT PLANS

Moody's expects the city's debt burden will remain manageable given limited future borrowing plans. The city's overall debt burden is moderate at 2.5% of which only 0.8% represents direct debt. Future borrowing plans include \$12 million for water and sewer projects with debt service expected to be supported by user rates. Neither the city nor the Agency have variable rate debt or are party to any swap agreements.

KEY STATISTICS:

Security: Covenant to budget and appropriated from legally available non-ad valorem revenues. Agency bonds additionally secured by project area tax increment revenues.

Growth in Legally Available Non Ad Valorem Revenues, FY 2003-2008: 6.8%

Maximum Debt Service on Non Ad Valorem Obligations (2010): \$3.1 million

2007 population (estimate): 64,341 (+0.4% since 2000 census)

2008 full valuation: \$8.15 billion

2008 full valuation per capita: \$126,675

2009 assessed valuation: \$5.2 billion

2010 estimated assessed valuation: \$4.3 billion

1999 PCI (as a % of State and U.S.): 81.3% of FL; 81.2% of U.S.

1999 MFI (% of State and U.S): 73.5% of FL; 67.0% of U.S.

Overall debt burden: 2.5%

Direct debt burden: 0.8%

FY08 General Fund balance: \$11.7 million (15.5% of General Fund revenues)

FY08 Undesignated General Fund balance: \$10.4 million (13.7% of General Fund revenues)

Unemployment rate (March 2009): 9.6%

G.O. Debt Outstanding: \$21.4 million

RATING METHODOLOGY AND LAST RATING ACTION

The City of Daytona Beach Capital Revenue Bonds 2001, Series C-2 and Daytona Beach Redevelopment Agency Capital Revenue Bonds 2001, Series C-1 debt rating was assigned by evaluating factors believed to be relevant to the credit profile of the issuer such as the projected performance of the issuer over the near to intermediate term; the issuer's history of achieving consistent operating performance and meeting budget or financial plan goals; the nature of the dedicated revenue stream pledged to the bonds; the debt service coverage provided by such revenue stream; the legal structure that documents the revenue stream and the source of payment. These attributes were compared against other issuers both within and outside of City of Daytona Beach's core peer group and City of Daytona Beach's ratings are believed to be comparable to ratings assigned to other issuers of similar credit risk.

The last rating action for the City of Daytona, FL was on February 9, 2009 when the Issuer Rating was affirmed at A1. The last rating action for Daytona Beach Redevelopment Agency was December 6, 2001.