

Daytona Beach, Florida

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Credit Profile

Daytona Beach GO bnds

Unenhanced Rating

AA-(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' rating on Daytona Beach, Fla.'s general obligation bonds outstanding, reflecting our assessment of the city's:

- Service-based economy that serves as the retail center of Volusia County;
- Tax-base declines within the city's capacity to manage the resulting losses of revenues;
- Strong financial management, which has maintained a stable financial position during the recent economic downturn; and
- Moderate overall debt burden.

In our view, these strengths are mitigated by below-average wealth and income measures.

The bonds are secured by the city's full faith and credit pledge.

Daytona Beach (population approximately 65,000) is located on the central east coast, 89 miles south of Jacksonville and 50 miles northeast of Orlando in Volusia County. The city is a major tourism destination, with about 8.5 million tourists visiting its attractions annually. As a result, the city serves as a major retail center for the area, demonstrated by per capita retail sales at 214% of the national average. Major area employers are primarily in the higher education, health care, and governmental sectors. The Bureau of Labor Statistics preliminarily estimates unemployment in the city for March 2010 at 12.1% (down from a high of 13.5% in January 2010), which is slightly lower than the state of Florida rate of 12.3% for the same period, but above the U.S.

After a period of strong growth, the city's assessed value decreased 9% in fiscal 2009 to \$5.3 billion. Market value also declined 4% in fiscal 2009 to \$8.2 billion, which equates to

\$126,596 per capita, a figure that's extremely strong, in our opinion. Leading taxpayers are very diverse in our view, as the top 10 taxpayers make up only 11% of the overall tax base. Looking ahead, management expects the assessed value to continue to decline with an 18% decrease forecast in the 2010 budget and a further drop of 14% anticipated for 2011. In response, the city has scaled back its capital budget and has undertaken other efforts to manage operating expenditures, with the 2010 budget reducing general fund expenditures by 4%. Wealth and income indicators are low, with median household effective buying income (EBI) at 63% of the 2008 national average and per capita EBI at 80% of the national average.

Despite the decrease in valuations, Daytona Beach's financial position has remained relatively strong in our view due in part to its strong fiscal and debt policies. Fiscal 2009 (Sept. 30) ended with a general fund reduction of \$3.7 million, leaving the ending unreserved general fund balance at \$7.0 million or 10% of general fund expenditures, meeting the adopted fund balance policy of maintaining the unreserved general fund balance at 10% of operations. The fiscal 2010 budget decreases revenues \$6.2 million or 3% over budgeted 2009 expenditures. The city projects fund balance levels to be consistent with the 2009 level and within the reserve policy target. The 2010 budget is based on no increase in the property tax rate, which is 17% lower than the rate in place prior to the state's property tax reform legislation in 2007.

The city expects to continue following its fiscal integrity guidelines, adopted several years ago to promote long-term budget balance. These and other policies have been reviewed by Standard & Poor's using our Financial Management Assessment (FMA), and have been assessed as "strong", indicating that fiscal and debt practices are strong, well embedded, and likely sustainable in our opinion. The city conducts formal long-term financial planning, conducts and publishes quarterly formal intrayear budget reviews, and follows a long-term capital improvement plan (CIP).

Daytona Beach's overall debt burden is moderate in our view at \$4,637 per capita, and on a market value basis at 3.7%. These debt ratios include the city's general obligation, capital revenue debt, and overlapping debt. Self-support was given to debt supported by the water and sewer user fees. The debt-service carrying charges are moderate in our opinion at 9% of operations in fiscal 2009. The city's police and fire pension plan was 81% funded as of the most recent actuarial valuation date (Oct. 1, 2008) with an unfunded actuarial accrued liability (UAAL) of \$64 million. For postretirement employee benefits, the city had a UAAL of \$26 million as of the most recent actuarial valuation date of June 1, 2009. The city funded 26% of the annual required contribution. Its five-year CIP totals \$68.8 million, and all funding has been identified. We understand that Daytona Beach plans to be back in the debt market some time in 2010 to issue approximately \$7 million in revenue bonds backed by the city's gas tax revenues.

Outlook

The stable outlook reflects Standard & Poor's view of Daytona Beach's ability to manage through the economic and financial stresses it faces. Declining valuations and resultant decreases in property tax collections have been matched by expenditure reductions and the city has in place strong policies to promote a strong financial profile, in our opinion.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006

- **USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008**
- **USPF Criteria: Financial Management Assessment, June 27, 2006**