STANDARD & POOR'S

Global Credit Portal
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Summary:
Delray Beach, Florida; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
Delray Beach GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Delray Beach GO (Decade of Excellence Prog)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on Delray Beach, Fla.'s general obligation (GO) bonds to 'AA' from 'AA-' reflecting our view of the city's:

- Residential and resort nature along with participation in the West Palm Beach-Boca Raton metropolitan statistical area;
- Above-average wealth and income levels;
- Strong financial position; and
- Low debt burden with limited future capital needs.

Delray Beach is 18 miles south of West Palm Beach and 50 miles north of Miami along the Atlantic Ocean, in Palm Beach County ('AAA' GO rating). The city's population growth has remained level at about 64,000 in 2009. There is a sizable retiree population, with retirees accounting for approximately 25% of the city's total population. The city is a resort area with beaches and other related activities serving as attractions for residents and tourists.

The city is mature and primarily residential in nature, while the remaining city area is equally divided among commercial, agricultural, and recreational space. Office Depot Inc. was, until recently, headquartered in Delray Beach, and had served as the largest employer. The current largest employers located in the city are in the retail and service sectors. Unemployment in the city averaged 10.5% in 2009, equal to state levels and above national levels. However, wealth and income levels are high in our opinion as both per capita (132%) and household (104%) effective buying incomes are above national averages.

After a period of strong growth, the city's assessed value decreased 6% in 2009 to $8.1 billion. Market value also declined 6% in 2009 to $10.6 billion, which equates to $127,759 per capita, which is extremely strong in our opinion. Leading taxpayers are very diverse in our view, as the top 10 taxpayers make up only 6.1% of the overall tax base. Looking ahead, management expects the assessed value to continue to decline with a 13% drop forecast in the 2010 budget and a further 14% decrease anticipated for 2011. In response, the city has scaled back its capital improvement plan (CIP) and has initiated other efforts to manage operating expenditures, with the 2010 budget reducing general fund expenditures by 3%.

Despite the decrease in valuations, Delray Beach's financial position continues to be strong in our view. Fiscal 2009 closed with a small operating surplus that increased the general fund balance to $23.7 million, or 25% of operating expenditures, of which $19.7 million, or 21% of operating expenditures, was unreserved. This result is consistent with the city's policy to maintain between 15%-25% unreserved fund balance to expenditures in the general fund. The city expects fiscal 2010 operations to result in close to break-even results.

According to Standard & Poor's Financial Management Assessment (FMA), the city's financial management practices and policies "standard", reflecting the finance department's maintenance of adequate policies in some but not all key areas. While no formal fund balance policy exists, Delray Beach does have the unreserved fund balance policy mentioned above. It also lacks formal debt and investment policies, but does have a formal five-year CIP developed by all departments and updated annually. The city also annually conducts a midyear budget re-balance.

The city's net debt burden is low in our opinion at $706 per capita, or 0.6% of market value, and the city uses only 8% of expenditures for debt service. Principal amortization of the city's GO bonds is rapid, with 67% maturing in 10 years and all remaining in 20 years. Delray Beach has limited capital needs and, we understand, does not have significant future debt plans. As of the most recent actuarial valuation date (Oct. 1, 2008), the city's pension plan for general employees was 95% funded with an unfunded actuarial accrued liability (UAAL) of $3.9 million. The city's police and firefighters plan was 71% funded with a UAAL of $49.1 million. For post-retirement employee benefits, the city maintains two plans whose combined UAAL was $17.3 million. It has funded the required contributions to all plans.

Outlook

The stable outlook reflects Standard & Poor's expectation that Delray Beach will continue to maintain strong reserve levels despite decreased property tax revenues due to declining assessed values. We believe that identifying alternative revenues or expenditure savings will be necessary components to achieving this. Also, we expect that the city's low debt burden coupled with limited capital needs should benefit the city in its financial planning.

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

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.