

Summary:

Delray Beach, Florida; Water/Sewer

Primary Credit Analyst:

Judith Waite, New York (1) 212-438-7677; judith_waite@standardandpoors.com

Secondary Contact:

Joseph J Pezzimenti, New York (1) 212-438-2038; joseph_pezzimenti@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Delray Beach, Florida; Water/Sewer

Credit Profile		
Delray Beach util		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Delray Beach util tax 2002		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has raised its rating on Delray Beach, Fla.'s utility tax revenue bonds, series 2002 and 2007 to 'AA-' from 'A'. The outlook is stable. Total debt outstanding as of Sept. 30, 2010 is \$48 million.

The higher rating reflects our view of the strong debt service coverage (DSC) from the pledged tax revenue and the city's expectation that this level of coverage will continue. A first-lien pledge of tax proceeds secures the bonds. Delray Beach levies and collects the tax on purchases of electricity, and metered and bottled gas, as well as communications system tax (CST) revenues. In adding the 2007 bonds, the city amended its bond resolution to include CST revenues as a pledged revenue source for this issue and the 2002 utility tax revenue refunding bonds, which are on par with the 2007 issue.

The rating also reflects our view of the healthy economy of Delray Beach (AA-/Stable), a primarily residential area with a tourism component that participates in the greater West Palm Beach-Boca Raton metropolitan statistical area.

Pledged revenues averaged \$8.8 million a year from 2008-2010, compared to debt service that has declined to \$1.8 million in 2010 from \$3.1 million in 2008, increasing DSC to 4.94x in 2010. Before issuing the 2007 utility tax revenue bonds and the CST tax pledge, DSC on the 2002 bonds was less than 2x. City officials do not intend to issue additional utility tax revenue debt, so they expect DSC to remain strong for the bonds' life. If Delray Beach issues additional debt against the utility tax pledge and DSC weakens substantially as a result, we will lower the rating. The 2002 bonds mature in 2016 and in 2020 debt service on the 2007 bonds will increase to about \$2.6 million per year until maturity in 2032. The 2008-2010 average tax revenue would provide DSC of more than 3x in those years. Even modest growth in utility service revenue would strengthen DSC. The city's utility tax levy is now at the maximum allowed by Florida law: electricity and gas (metered or bottled) at 10% of annual revenue, CST at 5.22% of revenue, and 4 cents per gallon of fuel oil, excluding fuel for agriculture and aircraft.

Bond provisions are satisfactory, in our view, providing moderate bondholder protection. The additional bonds test requires pledged revenues during any 12 consecutive months of the 18 immediately preceding the date on which the additional parity obligations are issued, equal to no less than 1.25x maximum annual debt service on existing and proposed bonds. A surety bond for the maximum amount of annual debt service provides the debt service reserve. The flow of funds is open.

Delray Beach, with an estimated population of about 65,000, is in Palm Beach County along the Atlantic Ocean. The city is almost built out, although it continues to experience redevelopment. Although primarily residential in nature, Delray Beach also has a tourism component. The average level of per capita effective buying income is about 32% higher than the national average. However, unemployment has historically been above state and national rates.

Outlook

The stable outlook reflects our expectation that sound coverage from the revenue stream will continue. Delray Beach does not intend to issue additional bonds against the utility tax pledge.

Related Criteria And Research

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept.15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.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.

Copyright © 2011 by Standard & Poors Financial Services LLC (S&P), a subsidiary of The McGraw-Hill Companies, Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P. The Content shall not be used for any unlawful or unauthorized purposes. S&P, its affiliates, and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P's opinions and analyses do not address the suitability of any security. S&P does not act as a fiduciary or an investment advisor. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain credit-related analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.