# CITY COUNCIL AGENDA

CITY COUNCIL CHAMBERS . 11465 WEST CIVIC CENTER DRIVE . AVONDALE, AZ 85323

**WORK SESSION**
**September 8, 2008**
**6:00 PM**

## CALL TO ORDER BY MAYOR ROGERS

**1 ROLL CALL BY THE CITY CLERK**

**2 BOND RATING CRITERIA**

Staff will present an overview of some of the key rating factors used by bond rating agencies to determine the City's bond rating. For information and discussion only.

**3 NAMING OF THE OLD TOWN LIBRARY**

City Council will receive information regarding the naming of the Old Town Library in memory of Mr. Sam Garcia. For information, discussion and direction only.

**4 ADJOURNMENT**

Respectfully submitted,

Carmen Martinez

Carmen Martinez
City Clerk

Any individual with a qualified disability may request a reasonable accommodation by contacting the City Clerk at 623-333-1200 at least 48 hours prior to the council meeting.

# CITY COUNCIL REPORT

**SUBJECT:**
Bond Rating Criteria

**MEETING DATE:**
September 8, 2008

**TO:** Mayor and Council

**FROM:** Kevin Artz, Finance and Budget Director (623)333-2011

**THROUGH:** Charlie McClendon, City Manager

**PURPOSE:**

Staff will present an overview of some of the key rating factors that the bond rating agencies utilize in determining the City's bond rating.

**BACKGROUND:**

Bonds are a form of borrowing commonly used by governments and corporations. Bonds are a series of promissory notes, typically with a duration between 1 to 30 years and a fixed interest rate. Interest paid to investors of municipal bonds may be tax exempt from federal and state taxes.

The City of Avondale issues bonds for various reasons, including to resolve cash flow limitations (similar to a mortgage on a house), to avoid excessive cost burden to current taxpayers, and to help share costs with residents that will use the facilities in the future.

When the City issues bonds, the City pays to have a credit rating assigned to the bonds by one or more of the rating agencies (Standard & Poor's, Moody's, Fitch Ratings). A bond rating is a value assigned to each bond issue that "rates" the credit worthiness or ability to pay of the City. The bond rating is an independent analysis used by the investors of the bonds to evaluate credit risk. There is an inverse relationship between the rating and the interest rate. A higher bond rating translates into less credit risk for the investor and in turn reduces the cost of borrowing money for the City.

Bond ratings are assigned to each of the different types of bond the City issues (General Obligation, MDC, Highway user revenue). Currently, the City has an AA rating on the MDC bonds, an A+ rating on the General Obligation bonds, and an AA- on the HURF bonds (see attachment A for the scale of the bond ratings).

**DISCUSSION:**

Each rating agency has their own set of criteria for evaluating credit risk. In evaluating the common criteria, staff has summarized the following as the key rating factors (in order of importance):

1. Economic Conditions
2. Administrative/Management Policies
3. Financial Condition
4. Debt structure

*Economic Factors*

The economic base is one of the most critical elements in determining the City's rating. The rating agencies view the economy as the foundation to the City's fiscal health. In general, the economic factors are the area that the City has the least ability to directly influence (in the short term). There are several trends or indicators that are utilized to evaluate the economic factors. Population growth (which can be a positive or negative factor depending on the community), building permits issued, wealth indicators (median household income), unemployment rates, diversification of the tax base, and large employers/taxpayers within the City are some of the indicators utilized by the rating agencies.

In general, a growing economic base, that is diversified and with good employment opportunities all contribute favorably to the City's bond rating.

*Administrative/Management policies*

The second key rating factor is management characteristics and policies, and is one of the areas that a City has the ability to significantly influence. Some of the policies and characteristics the rating agencies examine are, budgeting and forecasting, multiple year capital planning, operating impacts of capital projects, financial policies (reserves and liquidity), debt affordability reviews, management stability, and political climate (willingness to support rate increases when necessary, absence of infighting and recalls are all viewed as positive characteristics).

In fact, the management assessment has become so important to Standard & Poor's (S&P) that in addition to including management policies in the overall bond rating, they have begun a separate analytical review titled Financial Management Assessment (see attachment B – *Financial Management Assessment in U.S. Public Finance*).

S&P also has a publication listing the *Top 10 characteristics of highly rated credits in U.S. public finance* (see attachment C). Their top 10 list includes the following characteristics:

1. **An established rainy day/budget stabilization reserve –** reserves provide financial flexibility to react to budget shortfalls in a timely manner.

2. **Regular economic and revenue reviews to identify shortfalls early** – early recognition of economic downturns and revenue shortfalls provides the time and flexibility necessary to adjust budgets.

3. **Prioritized spending plans and established contingency plans for operating budgets** – contingency funds provide flexibility for revenue shortfalls and unplanned expenditures.

4. **A formalized capital improvement plan** – future infrastructure requirements will always have significant budgetary impacts. A multi-year capital plan aids in identifying needs and potential revenue shortfalls.

5. **Long-term planning for all liabilities** – impacts of future liabilities and well as operating impacts from future capital projects should be included in long-term planning.

6. **A debt affordability model to evaluate future debt offerings** – future debt offerings impact the ability to repay debt, and should be evaluated over the long-term. Stability of secondary property tax rates can be a major consideration.

7. **A pay-as-you-go financing strategy as part of the operating and capital budgets** – pay-as-you-go financing reduces borrowing costs, and provides flexibility during economic downturns.

8. **A multiyear financial model** – a multi-year model allows the City to determine if plans or projects have the ability to be funded, prior to being included in the annual budget process.

9. **Effective management and information systems** – effective information systems improve efficiencies and provide the necessary tools to evaluate financial information.

10. **A well defined and coordinated economic development strategy** – strategies that create employment, and enhance diversification could have a positive effect on credit ratings.

The common theme of the top 10 management characteristics is the ability to identify potential problems and future obligations, and most importantly, the flexibility to solve future shortfalls and economic downturns.

The City of Avondale has implemented or has in place each of the characteristics outlined above.

*Financial Condition*

The third key rating factor is financial condition, and is another area that the City has the ability to have a positive influence on the bond rating, Financial indicators involve several areas and can be broken down into three broad groupings, accounting and reporting methods, operating/budgetary position, and financial position.

Accounting and reporting methods include conformance with Generally Accepted Accounting Principles (GAAP), adherence to Governmental Accounting Standards Board (GASB) pronouncements, and timeliness of the financial reports. In addition, the ability of a City to prepare a Comprehensive Annual Financial Report (CAFR), as opposed to general purpose financial statements, and receiving the Government Finance Officers Association (GFOA) Certificate of Achievement for Financial Reporting are all viewed very favorably.

The operating account analysis examines sources of revenues, diversification of revenue sources, composition of revenue and expenditures (one-time vs. ongoing), surplus or deficits of revenues compared to expenditures, and the purpose of transfers to other funds. The budgetary analysis examines budgeted revenues and expenditures to actual, amendments to the original budget, reasonableness of revenue projections, and the ability to project financial position.

The financial position (balance sheet) analysis includes examining unreserved fund balances, liquidity, liabilities, ratios of fund balance as a percentage of expenditures, and changes in financial position from year to year.

In summary, the financial condition rating factor can be enhanced with a structurally balanced budget (one-time/ongoing), conservative revenue projections, diversified revenue sources, and adequate cash reserves to provide flexibility during down times.

*Debt Structure*

The final rating area is the debt structure, and again affords the City the opportunity to have a positive impact on the rating. The debt structure indicators focus on several ratios and statistical analysis, as well as the legal structure of the bond documents.

Several of the ratios measure the City's ability to repay the debt, and include analysis of the City's direct debt, the overlapping debt on the City (debt from the State, County, school districts, special districts that residents have to pay), debt per capita, and the debt as a percentage of market value.

The legal structure of the bond documents can also impact the ratings. When a revenue source is pledged for the repayment of debt, there are typically coverage requirements that the City agrees to maintain. For example, on the City's MDC bonds, all excise taxes are pledged as a source of repayment on the bonds, and the bond documents require that the excise taxes will be at least 3X the amount of the annual debt service on the MDC bonds (currently the City has 6.91x coverage). A significantly higher coverage ratio is viewed very favorably.

*Summary*

Rating agencies use numerous criteria and factors to determine the credit worthiness of an organization. The key areas within the City's control seem to be in the area of the assessment of management policies, flexibility to handle unforeseen circumstances, adequate reserves, and the ability to pay debt service obligations.

Staff has attached the most recent rating report from Standard & Poor's for the MDC bond issue. The City received an upgrade to AA from AA-. In reading the 2 page ratings report, Council will be able to identify some of the key rating areas and criteria identified in this report, and examine the strengths and weaknesses of the City of Avondale, as identified by S&P.

## RECOMMENDATION:

For information and discussion

## ATTACHMENTS:

**Click to download**

- Attachment A - Rating Summary
- Attachment B -FMA
- Attachment C - Top 10 Characteristics
- Attachment D - MDC rating report

# Underlying Credit Ratings Summary

| Moody's | Standard & Poor's | Fitch | Description |
|---|---|---|---|
| Aaa | AAA | AAA | Best quality, extremely strong capacity to pay principal and interest |
| Aa1<br>Aa2<br>Aa3 | AA+<br>AA<br>AA- | AA+<br>AA<br>AA- | High quality, very strong capacity to pay principal and interest |
| A1<br>A2<br>A3 | A+<br>A<br>A- | A+<br>A<br>A- | Upper medium quality, strong capacity to pay principal and interest |
| Baa1<br>Baa2<br>Baa3 | BBB+<br>BBB<br>BBB- | BBB+<br>BBB<br>BBB- | Medium grade quality, adequate capacity to pay principal and interest |

(1) Ratings below Baa3 or BBB- are non-investment grade.



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# CREDIT FAQ

# Financial Management Assessment In U.S. Public Finance

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**RatingsDirect**
**Publication Date**
June 27, 2006

Standard & Poor's Ratings Services is enhancing its analysis of financial management policies and procedures in U.S. public finance with the introduction of the concept of the Financial Management Assessment (FMA), a transparent assessment of a government's financial practices. The purpose of the FMA is to highlight aspects of management that are common to most governments in a consistent manner. (For a complete description of the FMA criteria, see the companion report, "Public Finance Criteria: Financial Management Assessment," RatingsDirect, June 27, 2006)

## *Frequently Asked Questions*

**Q:** *What is the FMA?*

**A:** The FMA is an analytic enhancement adopted by Standard & Poor's to improve the definition of our analysis of management practices and policies, and expand our methods of communicating analytic conclusions about policies and procedures.

The FMA encompasses seven areas most likely to affect credit quality. They are:

- Revenue and expenditure assumptions
- Budget amendments and updates
- Long-term financial planning
- Long-term capital planning
- Investment management policies
- Debt management policies
- Reserve and liquidity policies

The FMA is a word evaluation that offers a more transparent assessment of a government's financial practices as an integral part of our GO and appropriation credit rating process. The overall assessments will be communicated using the following terminology:

- "Strong" indicates that practices are strong, well embedded, and likely sustainable.
- "Good" indicates that practices are deemed currently good, but not comprehensive.
- "Standard" indicates that the finance department maintains adequate policies in most, but not all key areas.
- "Vulnerable" indicates that the government lacks policies in many of the areas deemed most critical to supporting credit quality.

**Q:** *Why is Standard & Poor's introducing the FMA at this time?*

**A:** A government's ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands is an important component of credit quality. Standard & Poor's is introducing the FMA in order to make certain aspects of our analysis of management more transparent—specifically those concerned with policies and practices that are considered most critical to credit quality.

**Q:** *What types of issuers will be assigned an FMA?*

**A:** FMAs will be assigned only to general government tax-backed and annual appropriation-backed issues. Special districts (TIFs, MUDs, special tax districts) will not have an FMA assigned.

**Q:** *Doesn't Standard & Poor's already assess management?*

**A:** Yes. Management is one of the four key areas underpinning tax-backed analysis. More specifically, the areas considered by the FMA have already been detailed in previous articles focusing on management best practices. The FMA is best understood as a framework in which to apply existing criteria and communicate results in a transparent and consistent manner.

**Q:** *How did you choose the various areas of focus, and why did you not include others?*

**A:** By focusing on a government's policies and practices, the FMA is not an evaluation of the competency or aptitude of individual finance professionals; nor is it an evaluation of a finance department's ability to handle either ordinary occurrences or unique challenges. The purpose of the FMA is to highlight the most transparent aspects of management that are common to most governments in a consistent manner. Even with this narrow definition, other possible practices could be considered, such as accounting and disclosure practices, internal controls, and policies for knowledge retention and staff turnover. While each of these, and others have the potential to affect credit quality, the factors considered in the FMA are those that Standard & Poor's considers the most critical in determining credit quality.

**Q:** *Is the assessment affected by the type or size of the government?*

**A:** While larger governments typically have additional finance staff that may be capable of producing more complex or sophisticated analyses, we believe all types and sizes of governments can implement good practices in each of the areas covered by the FMA, at least in some form. While school districts may not use independent economic forecasts for revenue analysis, as do states, objective forecasts for enrollment are still important. A local government dependent on state aid might argue that state politics make it too difficult to predict funding beyond the current budgetary term, but an understanding of how quickly expenditures will outpace revenues given an assumed revenue growth rate is still extremely important—even if the assumed growth rate does not prove correct.

**Q:** *What is the expected relationship between FMAs and credit ratings?*

**A:** The FMA is one component of an assigned rating; we will continue to evaluate all of the other factors–economic, financial condition, debt and management. Given what the FMA measures, it is possible that an entity with a strong FMA may be better able to tolerate weakness in the basic credit areas, or conversely, may be better able to take advantage of improving conditions. As a result, the practices that are captured by the FMA could contribute to rating changes, or allow a community to better prevent a downgrade. We do not expect a large number of rating changes to occur, as evaluation of the policies measured is already included in our analysis. The FMA is simply a different way of reporting analytic results.

Published by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. Executive offices: 1221 Avenue of the Americas, New York, NY 10020. Editorial offices: 55 Water Street, New York, NY 10041. Subscriber services: (1) 212-438-7280. 

STANDARD & POOR'S

# RATINGSDIRECT®

June 13, 2008

# Top 10 Management Characteristics Of Highly Rated Credits In U.S. Public Finance


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Top 10 List







653884 | 300001309

# Top 10 Management Characteristics Of Highly Rated Credits In U.S. Public Finance

*(**Editor's Note:** This article, originally published Jan. 11, 2006, has been updated.)*

Standard & Poor's Ratings Services has widely disseminated information to investors and issuers outlining how a credit rating is established in U.S. Public Finance. We have also developed representative ranges for key ratios that factor into tax-backed credit quality (see "Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality," published April 2, 2008 on RatingsDirect). These ratios are the foundation of the quantitative measures Standard & Poor's uses when establishing a credit rating. Ratios and comparisons are used to fine-tune credit analysis and help to make credit distinctions. For bond issuers, credit ratios are often used as a framework for making comparisons, with the focus often on improving a credit rating.

In addition to quantitative factors, qualitative information factors heavily into credit analysis. Management factors, administrative characteristics and other structural issues facing a government entity can be an overriding factor in a rating outcome. Management can contribute significantly to many of the individual credit ratios and can positively affect ratings in a number of ways (see Financial Management Assessment criteria). Conversely, the lack of strong management can be a significant factor in a weak credit profile. The economy will play a key role in determining a rating category, but management will be one of the deciding factors in fine-tuning the rating. The management or administrative structure of a government can move a rating up or down more significantly and swiftly than any other element of a credit review.

When assessing management, Standard & Poor's includes analysis of the political framework that governs it, as well as the day-to-day management staff. There could be a strong management team in place, but if there is political instability or lack of political will to make difficult decisions, management will be ineffective in many cases. Standard & Poor's also focuses on the "whole of government." Oversight and management controls covering all of the disparate operations of a government with a focus on accountability at each department or function are critical to strong credit rating.

The "Top 10" list of management characteristics associated with Standard & Poor's highly rated credits is generally applicable to other enterprise operations of government such as water, sewer, or solid waste. The relative importance of these factors may vary from credit to credit. It is important to remember that credibility is an important part of a rating review process and management assessment. Every government has challenges. Identifying problems or issues, and detailing how these will be addressed establishes credibility and greater transparency in the rating process.

## Top 10 List

### 1. An established rainy day/budget stabilization reserve

A formalized financial reserve policy is a consistent feature of most of Standard & Poor's highly rated credits. It has been standard operating procedure for some governments for decades. Others focused attention on this following the recession of the early 1990s, and again in 2001 when many regions of the country experienced sustained revenue weakness that required severe budget reduction measures. Reserves provide financial flexibility to react to budget shortfalls or other unforeseen circumstances in a timely manner. No one level or type of reserve is considered optimal from Standard & Poor's perspective. Many different types of reserves have factored into an improved government credit profile. Some important considerations when establishing a reserve are:

- The government's cash flow/operating requirements;
- The historic volatility of revenues and expenditures through economic cycles;
- Susceptibility to natural disaster events;
- Will the fund be a legal requirement or an informal policy;
- Are formal policies established outlining under what circumstances reserves can be drawn down; and
- Will there be a mechanism to rebuild reserves once they are used.

It is important to keep in mind that use of budget stabilization reserves is not in and of itself a credit weakness. The reserves are clearly in place to be used. A balanced approach to using reserves is important in most cases, however, because full depletion of reserves in one year without any other budget adjustments creates a structural gap in the following year if economic trends continue to be weak.

### 2. Regular economic and revenue reviews to identify shortfalls early

Having a formal mechanism to monitor economic trends and revenue performance at regular intervals is a key feature of stable financial performance. This is particularly true if a government relies on income tax or consumption-based taxes that respond rather quickly to economic fluctuations. Evaluating historical performance of certain revenues is important to this analysis because each government will have different leading or lagging economic indicators that signal potential revenue variance issues based on their economic structure. The earlier revenue weakness is identified in the fiscal year, the more effective the budget balancing response can be. It is important to monitor upside growth as well. A surge in revenues is important to understand as well to determine if the trend is an aberration or something that is likely to sustain and require a mid-year adjustment.

### 3. Prioritized spending plans and established contingency plans for operating budgets

Contingency planning should be an ongoing exercise for governments. Budgets tend to inflate in good times: governments will expand services, fund generous employee pay packages, and accelerate financing for quality-of-life projects that would never be considered in a slow growth or declining economic environment. It is good public policy to have contingency plans and options to address budget imbalance when it occurs. This would include an analysis of the following:

- What part of the budget is discretionary;
- What spending areas can be legally or practically reduced;
- The time frame necessary to achieve reductions of various programs;
- Where revenue flexibility exists; and
- A course of action on the revenue side under various economic scenarios.

### 4. A formalized capital improvement plan in order to assess future infrastructure requirements

Highly rated credits will have a long-term capital improvement program that comprehensively assesses the infrastructure requirements of the government and a plan to fund these requirements over a five-year (or longer) time frame. Having a realistic plan that is comprehensively developed and updated annually is a requirement of all highly rated local governments. Developing these programs for state government is difficult because the scale of projects and the scope of responsibilities are so broad. Many have accomplished this task despite these obstacles, which is a positive credit factor. It is also important to incorporate the impact of capital projects on the operating budget for the short- and long-term. Governments have been moving into non-traditional projects, whether they are economic development (contributing infrastructure to a developer or industry) or quality of life (stadiums). These projects come with an upfront budget cost, but can have multiyear budget impacts. Projects can be sold as self-supporting, but may potentially be a drain on taxing resources.

### 5. Long-term planning for all liabilities of a government, including pension obligations, other post employment benefits and other contingent obligations would be optimal and allow for comprehensive assessment of future budgetary risks

This area of analysis should be comprehensive and include the "whole of government" approach. The nature of government services can create unexpected contingent obligations, or "off balance sheet" liabilities that could ultimately affect taxing resources. Unfunded pension liabilities have been disclosed in detail for years and this disclosure has enhanced the transparency of funding obligations in both the current year, and future years. Disclosure of this liability has also focused attention and planning on ways to improve funding levels. The new GASB Statement 45 requiring disclosure of liabilities associated with other post employment benefits (OPEB) will highlight some significant future liabilities for many governments. Given the rate of growth in health insurance costs and current demographic trends, greater transparency in this area will allow for advance development of funding and management solutions. Other areas of government operations and services have also resulted in budget pressure that may fall out of the traditional general fund focus. Hospital and nursing home operations, as well as various other enterprise operations have caused funding challenges at the local level, even when there is no clear legal responsibility for the government to provide funding. At the state level, local government fiscal difficulties can increase and become a funding challenge for the state.

### 6. A debt affordability model in place to evaluate future debt profile

Recently, state and local governments have developed debt affordability models. The impact of these models on a long-term credit rating will be dependent on how the model is established and used by the government, and the track record in adhering to the affordability parameters established in the model. There is no question that the process enhances the capital budgeting and related policy decisions regarding debt issuance and amortization.

### 7. A pay-as-you-go financing strategy as part of the operating and capital budget.

Pay-as-you-go financing can be a sound financing policy. Not only does it lower debt service costs, but also it provides operating budget flexibility when the economy or revenue growth slows. This is a more significant financing option when tax revenue growth in many areas can be considered extraordinary. A better match can be achieved between non-recurring revenues and non-recurring expenditures if this type of financing is used.

### 8. A multiyear financial plan in place that considers the affordability of actions or plans before they are part of the annual budget.

It is important that this plan is comprehensive. During a sustained economic recovery, program enhancements and tax reductions are natural. Pension funds that performed at record levels can provide incentive to expand or enhance benefits. As these program enhancements and tax reduction programs are incorporated on a long-term basis, it is important that management and elected officials understand the implications of any funding change. Elected officials will be ultimately responsible for the decisions necessary to restore out-year budget balance. Multiyear planning can be an important part of this process. The reality of government finance today is that even when there is legal authority to raise taxes, there may not be a practical ability to do so because it is politically unpopular. Standard & Poor's realizes that the out-years of a multiyear plan are subject to significant change. They provide a model to evaluate how various budget initiatives affect out-year revenues, spending and reserve levels. These plans will often have out-year gaps projected, which allows governments to work out, in advance, the optimal method of restoring fiscal balance.

### 9. Effective management and information systems

Investing in systems that improve the efficiency and effectiveness of a government unit and enhance overall service delivery is a positive financial management tool. Investment in financial management and information technology infrastructure has been significant during the past decade. To the extent that these changes improve financial reporting and monitoring capabilities, they enhance transparency and are viewed as a positive credit factor.

### 10. A well-defined and coordinated economic development strategy

Economic development programs have expanded rapidly over the last 20 years. The question for state and local governments now is not whether there should be a formal economic development program, but rather how significant a resource commitment should be dedicated to running these programs and offering incentives. These are clearly government policy decisions involving cost benefit analysis that are generally outside the credit rating process. However, if these economic development programs and strategies create employment, enhance diversification, and generate solid income growth, they could have a positive effect on a government credit rating over the long-term. To the extent that there is a net revenue benefit to a government, it could also be a positive credit factor. Economic development strategies have increasingly become regional in nature and there has been a more coordinated approach between state and local governments.

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RatingsDirect®

July 7, 2008

**Summary:**

# Avondale Municipal Development Corp., Arizona; Miscellaneous Tax; Sales Tax

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Rationale

Outlook





658346 | 301027627

**Summary:**

# Avondale Municipal Development Corp., Arizona; Miscellaneous Tax; Sales Tax

| Credit Profile | | |
|---|---|---|
| US$15. mil Excise Tax rev bnds (Avondale Mun Dev Corp) (Municipal Dev Corp) ser 2008 due 07/01/2028 | | |
| *Long Term Rating* | AA/Stable | New |
| **Avondale Mun Dev Corp excise tax** | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Upgraded |
| **Avondale Mun Dev Corp excise tax** | | |
| *Unenhanced Rating* | AA(SPUR)/Stable | Upgraded |
| Many issues are enhanced by bond insurance. | | |

## Rationale

Standard & Poor's Ratings Services raised its rating and underlying rating (SPUR) to 'AA' from 'AA-' on Avondale Municipal Development Corp., Ariz.'s outstanding excise tax revenue bonds. In addition, Standard & Poor's assigned its 'AA' rating to Avondale's series 2008 excise tax revenue bonds. The raised rating reflects the city's continued maintenance of very strong coverage levels.

The ratings also reflect:

- A growing economic base, with good access to employment opportunities throughout the Phoenix MSA;
- A diverse and reliable stream of pledged excise taxes made up of sales taxes and state-shared income taxes;
- High 6.91x coverage on maximum annual debt service (MADS) by projected fiscal 2008 pledged excise taxes;
- A two-part additional bonds test (ABT) requiring historical 3.0x MADS coverage and 1.25x MADs coverage of total and proposed debt, after deduction of prior lien debt service; and
- The city's historic reliance on excise taxes to finance general fund operations, making it very unlikely that it will bond down to its ABT.

Offsetting factors include:

- Some concentration in the sales tax base, with 18% of the city's sales tax collections stemming from construction-related activities and the top 10 accounting for an estimated 30% of total sales tax revenues; and
- A projected slowdown in building permit activity as well as in construction-related sales tax revenues.

The bonds are secured by a first lien of excise taxes, which include transaction privilege (sales) taxes, state shared revenues, franchise fees, permits and fees, and fines and forfeitures. There is, however, a prior claim upon the state-shared revenues that secure the city's series 1998 GO bonds and the series 1998 water/sewer bonds ($4.7 million outstanding) that were sold to the Greater Arizona Development Authority (GADA). Proceeds of the series 2008 issuance will be used to finance water system and street improvements.

Avondale (population 63,089) continues to be one of Maricopa County's fastest growing cities in terms of population and secondary assessed valuation (AV) due to its convenient location (15 miles west of Phoenix), availability of land, and affordable homes. Avondale's population has increased significantly, up 76% since 2000, to reach 63,089 residents in 2007. After many years of rapid development, new housing starts for Avondale are projected to decline 83% from a peak of 2,483 in 2004 to 400 in 2008. Although housing construction has slowed, secondary AV continues to grow -- due in part to some lag in AV figures. Secondary AV is estimated to increase 20.6% from fiscal 2008 to $704 million in fiscal 2009.

Emerging sectors of the economy include commercial and industrial uses; however, major employers fall mainly within the public and retail sectors. Leading private employers include Wal-Mart (560 employees), Avondale Auto Group Dealerships (375), and Fry's Food & Drug Store (305). Household effective buying income (EBI) and per capita EBI are strong at 125% and 85% of U.S. averages, respectively. The unemployment rate is below average at 3.1% in 2007. Per capita retail sales in 2007 are also strong, at 113% and 123% of the state and national averages, respectively.

The city estimates that 2008 excise tax revenues, net of debt service on the city's GADA loan, will provide 6.91x MADS coverage. City sales taxes account for the largest portion of excise tax revenues at approximately 67% in fiscal 2007, followed by state shared income taxes (13%), and the state shared sales tax (10%). Additionally, 18% of the city's sales taxes are generated from construction-related activities. However, the city has historically treated these revenues as one-time sources to fund pay-as-you go capital spending, and transferred construction-related sales tax revenues outside of the general fund. The top 10 sales tax producers account for an estimated 30% of total sales taxes in 2008. Total pledged excise taxes have shown strong growth during the past five years (increasing at an average annual rate of 24%), but are projected to decline 8% overall in fiscal 2008 to $58.4 million.

The city's financial performance is strong, with general fund operating surpluses during the past few years contributing to very strong unreserved general fund balances. In audited fiscal 2007, the city reported a general fund operating surplus of $9.8 million after transfers, with an unreserved general fund balance of $37 million, representing a very strong 95% of expenditures. According to management, the city expects to end fiscal 2008 with an operating deficit of $2.4 million and an unreserved general fund balance of roughly $35 million or a very strong 74% of expenditures. For fiscal 2009, the city is planning to spend down its reserves for pay-as-you-go capital spending, and projects a $6.7 million general fund operating deficit. The unreserved general fund balance will remain a very strong 52% of expenditures. The city has an informal policy to maintain reserves of at least $25 million, and the city has no plans to reduce reserves below that level.

The city relies on pledged revenues to pay for general government spending, after payment of debt service, thus making it very unlikely that the city will bond down to its ABT. The two-part ABT further protects against coverage dilution by ensuring that additional parity debt can only be issued when excise tax revenues collected in the preceding fiscal year, net of the principal and interest paid on the prior lien, equal 3.0x MADS. In addition, pledged revenues collected within the city in the preceding fiscal year, net of principal and interest paid on the GADA bonds, must equal 1.25x MADS of previous debt and proposed debt. The rate covenant stipulates that if pledged excise tax revenues do not cover annual debt service by at least 2.0x for any fiscal year, management is required to provide a mechanism either by raising rates or imposing new taxes to restore coverage levels.

The city plans to sell approximately $15 million of new excise tax debt in 2010. Additionally, it expects to issue about $31 million in GO bonds in August of this year to fund various park and street improvements as well as water/sewer system upgrades.

## Outlook

The stable outlook reflects our expectation of continued strong debt service coverage by pledged revenues, despite the overall slowing of the local economy. It also reflects the expectation that the city will not dilute coverage through significant additional bonding to preserve unused excise taxes for general fund operations.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, 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; under Credit Ratings in the left navigation bar, select Find a Rating, then Credit Ratings Search.

# CITY COUNCIL REPORT

**SUBJECT:**
Naming of the Old Town Library

**MEETING DATE:**
September 8, 2008

**TO:** Mayor and Council

**FROM:** Daniel Davis, Director of Parks, Recreation & Libraries (623)333-2411

**THROUGH:** Charlie McClendon, City Manager

**PURPOSE:**

Staff will present Council with information regarding the naming of the Old Town Library in memory of Mr. Sam Garcia.

**BACKGROUND:**

During the meeting of July 7, 2008, Council directed staff to seek input regarding the naming of the Old Town Library in memory of Mr. Sam Garcia.

Mr. Garcia was a life-long resident of Avondale and owned and operated Garcia's Market, now known as Food City. Mr. Garcia was an active civic leader who organized toy and food drives and was an active, contributing member of many local organizations. Mr. Garcia passed away recently and his funeral was attended by numerous people who spoke of his contributions to the local community and remembered him as a man of compassion and generosity.

Council requested that the proposed name change be presented to the Parks and Recreation and Library Advisory Boards. In addition, Council suggested that staff poll residents to gauge their opinion of the name change.

**DISCUSSION:**

Staff presented the discussion item to the Parks and Recreation Advisory Board on July 9, 2008. The Board focused its discussion on the facility naming policy and believed that the naming recommendation should be the responsibility of the Library Advisory Board. The Parks and Recreation Board, which developed the facility naming policy, indicated that they did not have any objections with the process and that ultimately the naming decision for parks and city facilities rests with the City Council.

The Board also unanimously agreed that the naming policy should be updated and the Board asked staff to bring the policy back to a future meeting for further review.

The Board suggested that if the Old Town Library was renamed, that a plaque should be included on the building that would provide an explanation as to why the building was named in memory of Mr. Garcia.

Staff presented the discussion item to the Library Advisory Board on July 16, 2008. The consensus of the Board was to keep the name for the Old Town Library as is, based upon its geographical location. The Board suggested that it may be appropriate to consider naming a room or areas in the building in recognition of community members.

To seek the public's input, the Community Relations department developed a display table and patron survey that included background information about Mr. Garcia from an article that ran in the West Valley View. The display and surveys were placed in the Old Town Library and City Hall for approximately three (3) weeks. During that period fifty-six (56) surveys were submitted with forty-eight (48) in support (86%) and eight (8) opposed (14%) to the name change. In addition, staff received eight (8) additional phone calls or E-mails, with six (6) in support and two (2) opposed to the name change. The following is the survey that was distributed:

**Old Town Avondale Library Survey**

The City of Avondale is contemplating the idea of combining the geographic identification of the Old Town Library with the recognition of long time Avondale resident Mr. Sam Garcia

Mr. Garcia was a life-long resident of Avondale and owned and operated Garcia's Market, now known as Food City. Mr. Garcia was an active civic leader who organized toy and food drives and donated countless hours of time and money for various community groups such as; Westside Recreation, the Salvation Army, Estrella Rotary Club and Saint John Viannney Catholic Church.

Would you support the combined name of the Old Town Avondale-Sam Garcia Library?

On August 20, 2008, staff presented the survey results to the Library Advisory Board for further discussion. The Board voted unanimously to recommend to City Council that the name of the Old Town Library remain the same and use only the geographic identification for the Library.

## BUDGETARY IMPACT:

If Council decides to change the name of the Old Town Library, the cost to modify the existing back-lit lettering on the exterior of the building would be approximately $10,000, which could be paid from the Library construction budget and an item will be brought back to Council on September 15, 2008.

## RECOMMENDATION:

For information and discussion purposes only

## ATTACHMENTS:

**Click to download**

No Attachments Available