MIAMIBEACH

OFFICE OF THE CITY MANAGER

NO. LTC # 251-2006

LETTER TO COMMISSION

TO: Mayor David Dermer and Members of the City Commission

FROM: Jorge M. Gonzalez, City Manager Jorge

DATE: October 23, 2006

SUBJECT: Moody's Upgrades City's Bond Rating from A1 to Aa3

The purpose of this LTC is to inform you that Moody's Investor Service has upgraded the City's General Obligation Rating from A1 to Aa3.

According to Moody's, the Aa3 rating is based on the City's substantial tax base with an established national and international tourism and entertainment-based economy as well as a solid financial position, sound budgeting practices and average debt burden.

Moody's anticipates the tax base will continue to grow given sustained strength in the tourism market and ongoing redevelopment. At an average annual growth rate of 19%, the tax base more than doubled between fiscal year 2003 and 2007. Although recent growth can be mainly attributed to property reappraisal and appreciation, 15% of tax roll growth is attributed to new construction. Unemployment rates have also declined sharply in recent years from 9% in 2002 to 3.5% in July 2006. For FY 2006, hotel occupancy rates (81.7%) and average room rates ($216) have reached record high for the past seven years.

Additionally, Moody's noted the City's healthy financial position with stable reserve levels and sound budgeting practices. Based on preliminary results for FY2006, the City expects to add at least one million dollars to total General Fund balance in addition to maintaining 11% contingency reserve.

Moreover, Moody's expects the city's above-average debt levels to continue to decline given the limited future borrowing plans and continued expected tax base growth.

If you have any questions or need additional information, please feel free to contact me.

JMG/DM

Attachment

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Moody's Investors Service

Rating Update: Miami Beach (City of) FL

MOODY'S UPGRADES TO Aa3 FROM A1 MIAMI BEACH'S (FL) GENERAL OBLIGATION RATING

UPGRADE AFFECTS $87.5 MILLION IN OUTSTANDING G.O. BONDS

Municipality
FL

Opinion

NEW YORK, Oct 10, 2006 -- Moody's Investors Service has upgraded to Aa3 from A1 the underlying rating on Miami Beach's (FL) $87.5 million outstanding general obligation bonds. The bonds are secured by the city's unlimited general obligation pledge. The Aa3 rating is based on the city's substantial tax base with an established national and international tourism and entertainment-based economy, solid financial position and sound budgeting practices, and average debt burden. The upgrade to Aa3 reflects the city's continued tax base growth and economic expansion as well as the financial stability despite rapid budgetary growth.

At this time, Moody's also upgrades to A1 from A2 the rating on the city's $4.9 million non-ad valorem obligations related to the Sunshine State Governmental Financing Commission loans.

CONTINUED STRONG GROWTH IN TAX BASE AND STABLE TOURISM MARKET

Moody's believes the tax base will continue to grow, albeit at a potentially slower pace, given sustained strength in the tourism market and ongoing redevelopment. At an average annual growth rate of 19%, the tax base more than doubled between fiscal 2003 and 2007 to $22.7 billion. While a significant portion of recent growth is attributable to property reappraisal and appreciation, new construction added $786 million (15% of growth) to the fiscal 2007 tax roll. The city's fiscal 2007 full value increased 30% to $28.6 billion. Expectations are for continued tax base growth at somewhat lower rates. Additionally, as commercial construction projects have come online, business vacancy rates have declined to 12.6% in fiscal 2005 from about 24% in fiscal 2002. Unemployment rates have also declined sharply in recent years to 3.5% in July 2006 from 9% in 2002. The city's economy is focused on tourism and maintains an established national and international identity that contributes to high quality tax base development. While tourism was somewhat depressed in 2002, the industry has rebounded in recent years, as reflected in steady growth in the 2% resort tax that increased 45% to $32.1 million between fiscal 2000 and 2005, despite an 11.2% drop in fiscal 2002. For fiscal 2006, hotel occupancy rates (81.7%) and average room rates ($216) have reached a record high for the past seven years. City resident per capita income is about 130% of the state average, while median family income is only 73% and housing values are over three times the state average.

HEALTHY FINANCIAL POSITION; STABLE RESERVE LEVELS AND SOUND BUDGETARY PRACTICES

Moody's expects the city's financial operations to remain healthy given solid financial management and historically stable reserve levels. After ten consecutive years of operating surpluses, the fiscal 2005 General Fund balance increased to $35.3 million (20.3% of General Fund revenues) from $29.7 million (19.3% of revenues) in fiscal 2004. The city maintains solid financial cushion with an 11% policy for its contingency reserve, which was $18.6 million (11% of revenues) in fiscal 2005, and an unreserved, undesignated fund balance of $16 million (9.2% of revenues). The $5.6 million operating surplus in fiscal 2005 was primarily driven by increases in property tax and building permit revenues, as well as lower-than-budgeted salary expenditures. Based on preliminary results for fiscal 2006, the city expects to add at least one million dollars to total General Fund balance in addition to maintaining the 11% contingency reserve.

The city's operating budget increased about 49% (excluding Redevelopment Agency pass-throughs) from fiscal 2004 to fiscal 2007 due especially to growth in fixed costs and public safety. The fiscal 2007 budget increased 14% over fiscal 2006 projected expenditures. Public safety makes up 49% of the fiscal 2007 operating budget and growth in this item (10%) is driven by 17 new budgeted police officers. Total operating salaries and benefits increased 13%, which absorbs a pension adjustment in fiscal 2006 that transitioned some employees from a defined contribution plan to the defined benefit plan (total fiscal 2006 impact of $2.7 million). For the past two years, management has budgeted $1 million annual transfer to fund the self-insurance fund which currently has an $11 million deficit due to new accounting standard requirements. The fiscal 2007 budget also includes approximately $29 million (12% of total operating budget) in relatively flexible contingency budgets and transfers to capital projects and reserve funds. A portion of the capital transfers ($2.5 million) is funded with 0.182 mills of the city's total operating millage that is designated for capital purposes. The city's operating millage increased in fiscal 2005 with the additional millage for capital purposes, but decreased in fiscal 2007 to 73.7% of the statutory ten-mill limit. The city benefits from the fact that only 30% of the residential property in the city is subject to homestead exemption which has kept values in most Florida municipalities artificially lower since growth in capped to the lesser of CPI index or 3%.

AVERAGE DEBT LEVELS; LIMITED EXPECTED FUTURE BORROWING

Moody's expects the city's above-average debt levels will continue to decline given limited future borrowing plans and continued expected tax base growth. The overall debt burden of 2.3% of full value reflects not only the city's obligations but also its share of the substantial amount of county and school district debt. High per capita debt levels at $7,651 is indicative of an infrastructure to provide for a large seasonal population as opposed to a smaller permanent population. Debt service costs are above average at 16.4% of operating expenditures, in part reflecting the city's significant amount of special tax bonds. A large $53 million of special tax bonds for pension funding are currently outstanding. The city also has approximately $97.3 million in tax increment bonds outstanding secured by tax increment revenue and a subordinate pledge on the resort tax.

Officials have a five-year (2006-2010) $347 million capital program with major projects including right of way infrastructure ($183.7 million), parks and facilities ($13.3 million), and convention center improvements ($58 million). Future borrowing plans are limited to enterprise-related debt no earlier than fiscal 2008.

KEY STATISTICS

2005 population estimate: 89,104

FY 2007 Full valuation: $28.6 billion

FY 2004 Full value per capita: $320,973

FY 2005 General Fund balance:

Total: $35.3 million (20.3% of General Fund revenues)

Undesignated & Reserved for contingency: $34.6 million (20% of revenues)

Operating Tax Rate as % Statutory Limit, FY 2007: 73.7%

Overall Debt Burden: 2.3%

Payout of principal (all bonds),

10 years: 51.8%

15 years: 80.1%

Total Outstanding Direct Debt: $295.8 million

1999 Per Capita Income as % State: 129.2%

1999 Median Family Income as % State: 73.3%

1999 Median Housing Value as % State: 317.0%

Unemployment Rate (July 2006): 3.5% (State: 3.5%)

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