

Rating Action: Moody's Upgrades Glendale, AZ to A2 GOULT; Related Ratings Upgraded; Outlook Stable

Global Credit Research - 27 Jan 2016

New York, January 27, 2016 -- Summary Rating Rationale

Moody's Investors Service upgraded Glendale, Arizona's GOULT rating to A2 from A3 (\$107.9 million of debt affected). Moody's also upgraded various special tax obligations as follows: senior general excise tax debt to A2 from A3 (\$240.6 million), subordinate general excise tax debts to A2 from A3 (\$197.1 million of debt affected), transportation excise tax debt to A2 from A3 (\$77.6 million), and highway user revenue debt to A2 from A3 (\$1.9 million of debt affected). Additionally, Moody's affirmed the city's water and sewer revenue debt at A1 (\$188.4 million of senior debt and \$33.9 million of subordinate debt affected). The outlooks on the city and the water and sewer utility were revised to stable from positive.

The upgrade to A2 for the GOULT rating reflects continued improvement in the city's still modest financial position benefitting from overall positive economic trends, particularly for excise taxes, as well as prudent budget management. The city's tax base also continues to grow soundly amid the region's housing recovery. However, the city remains challenged by an outsized debt burden that includes significant leveraging of excise taxes otherwise available for core services. Financial flexibility is also limited by a high fixed costs burden. Additionally, the city beneficially reduced its financial exposure to professional sports by negotiating a significant reduction in arena management fees for the city-owned hockey arena, but it still bears long-term debt for two professional sports facilities and secured by operating excise taxes.

The upgrades to A2 for the special tax ratings reflect Moody's US Public Finance Special Tax Methodology as these obligations lack legal separation from the city's general operations and therefore are capped at its GOULT rating despite otherwise sound credit fundamentals.

The city directly receives all pledged excise revenues prior to fully setting aside funds for upcoming debt service payments, which allows for comingling of pledged revenues with other operating resources. Nevertheless, these obligations each demonstrate solid and improving debt service coverage with support from the improving regional economy.

The A1 ratings for both the senior and subordinate liens reflects a consistently solid operating position including recent, modest growth in liquidity. Also, the largely residential and diversified customer base provides continued stability, and the enterprise maintains still satisfactory debt service coverage. Additionally, the enterprise has consistently ample water supplies despite persistent drought conditions in the West.

Rating Outlook

The stable outlook on the city anticipates that management continues to budget conservatively and drive financial performance toward a recent policy to grow general fund reserves to 25% of revenues within its five-year forecast. The economy and tax base continue to perform well and in-line with the greater Phoenix (Aa1 stable) area as it recovers from the recent recession.

The stable outlook on the water and sewer enterprise reflects solid operating performance and ongoing improvement in-line with the city's general credit characteristics that include a prudent shared management team. The enterprise benefits from reliance on regular service charges to support operations, and capital needs are budgeted conservatively and considered affordable on a pay-go basis without immediate plans for additional debt. Depending on the results of an ongoing rate study, management expects the city to resume rate increases within two years to support a healthy operating position.

Factors that Could Lead to an Upgrade

GOULT and Special Tax

Sustainably higher reserves more aligned with higher-rated peers

Appreciation in socioeconomic measures

Substantial and sustainable tax base growth

Water and Sewer Enterprise

Significantly stronger debt service coverage

Protracted improvement in operating performance relative to peers

Sustainable growth in the service area

Factors that Could Lead to a Downgrade

GOULT and Special Tax

Deterioration of the city's financial position

Higher fixed costs burden, including additional leveraging of excise taxes

Negative outcome from pending litigation that impact's the city's financial position

Water and Sewer Enterprise

Significant declines in annual debt service coverage

Unwillingness to implement prudent rate increases

Sharp declines in available water supplies

Legal Security

Not applicable

Use of Proceeds

Not applicable

Obligor Profile

Glendale is located west of Phoenix and has a population of approximately 233,000 residents. The water and sewer utility averaged 62,000 water connections as of FY2015, of which nearly 90% are residential users, along with sewer connections in the range of 57,000 users.

Glendale's water supply remains ample despite ongoing drought conditions in the western U.S. Daily water production capacity totals approximately 104.1 million gallons daily (MGD) compared to maximum daily deliveries that averaged around half of this capacity for the last several years. The Central Arizona Project, operated by the Central Arizona Water Conservation District (Aa2 stable), administers the state's share of federally regulated Colorado River water distributions, accounts for approximately 40% of the city's water supply. Approximately one-third of the city's water supply is attributable to the Salt River Project Agricultural Improvement and Power District (Aa1 stable), a regional provider to the Phoenix metropolitan area that is sourced from mountain runoff. The city also owns various groundwater wells with available supply that diversify its portfolio of resources.

Methodology

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the utility revenue ratings was US Municipal Utility Revenue Debt published in December 2014. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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