Moody's Investors Service

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New Issue: New Rochelle (City of) NY

MOODY'S UPGRADES CITY OF NEW ROCHELLE'S (NY) G.O. BOND RATING TO Aa3 FROM A1, AFFECTING $81.8 MILLION OF OUTSTANDING DEBT

ASSIGNS Aa3 RATING TO $6.2 MILLION G.O. BONDS AND MIG 1 TO $3.2 MILLION BAN

Municipality
NY

Moody's Rating

ISSUE		**RATING**
Bond Anticipation Notes		MIG 1
Sale Amount	$3,200,000	
Expected Sale Date	03/07/07	
Rating Description	Bond Anticipation Notes	
Public Improvement (Serial) Bonds, 2007		Aa3
Sale Amount	$6,200,000	
Expected Sale Date	03/07/07	
Rating Description	General Obligation	

Opinion

NEW YORK, Mar 6, 2007 -- Moody's Investors Service has assigned a Aa3 rating to the City of New Rochelle's (NY) $6.2 million Public Improvement (Serial) Bonds, 2007 and a MIG 1 rating to the city's $3.2 million Bond Anticipation (Renewal) Notes, 2007. Concurrently, Moody's has upgraded the rating on the city's previously issued long term debt to Aa3 from A1, affecting $81.8 million of debt secured by the city's unlimited property tax pledge. The Aa3 rating reflects the city's sizable tax base with above average wealth indices, improved financial position and a moderate debt burden that is expected to remain manageable. The upgrade also factors elimination of the city's statutory property tax cap effective with the fiscal 2006 budget, which was originally imposed in exchange for permission to implement a 1% increase in its sales tax, with no required roll-back of the sales tax rate. This enhancement to the city's revenue raising authority, along with increased reserves following operating surpluses in fiscal 2004 and 2005, with further reserve augmentation anticipated in fiscal 2006, have significantly increased the city's financial flexibility. Additionally, assignment of the MIG 1 rating to the current BAN issuance reflects the city's demonstrated ability to access the market to permanently finance these notes. Proceeds of the bonds will fund a settlement associated with a development project from the mid-1980's, as well as provide funds for marina improvements. BAN proceeds will fund various capital needs of the city.

DEMONSTRATED RECORD OF MARKET ACCESS

The city is a regular market participant with a demonstrated record of market access. The city received seven bids on its November 2006 note sale. Moody's believes this indicates healthy market interest and evidences the county's ability to redeem the current notes at their March 14, 2008 maturity. The notes are ultimately secured by the city's general obligation unlimited tax pledge.

PROPERTY TAX CAP ELIMINATED AS OF FISCAL 2006 BUDGET

From 1993-2005 the city operated under a property tax cap limiting increases to the property tax rate and levy to the Consumer Price Index in any given year, which was originally imposed by the state legislature in exchange for permission for the city to raise its local sales tax to 2.5% from 1.5%. Consecutive decreases in assessed values over the past decade had exacerbated the challenges posed by the property tax cap. Changes in state law lessened the severity of the cap in fiscal years 2004 and 2005, to address rising pension costs. The cap was eliminated as of fiscal 2006, and the city's enhanced 2.5% sales tax rate has been retained through December 31, 2007, at which time the city will pursue its extension, as is commonly required in New York.

FAVORABLE OPERATIONS BOLSTER RESERVES

In fiscal 2004, the city was granted permission by the state to increase the property tax rate by the change in the Consumer Price Index plus any incremental change in pension costs, and officials implemented a 12.8% increase in the property tax levy, easing pressure on the budget. In addition, mortgage tax and sales tax collections in excess of budget contributed to a $7.3 million revenue surplus, while expenditures were just under budget for the year, reflecting conservative budgeting and careful expenditure controls. As a result, General Fund balance increased by $5.8 million, after replenishment of $2.3 million of fund balance appropriated as a revenue source. At year-end, General Fund reserves, at $10.5 million, were equivalent to 11.5% of revenues, up from 6.2% in fiscal 2003; of which $4.2 million, or 4.6%, was undesignated. Similarly, fiscal 2005 operations replenished $3.8 million of fund balance appropriated in the budget as a revenue source, and added $3.2 million to General Fund reserves. Positive operating results were largely driven by strong revenue performance, with total revenues $6.8 million over budget, largely due to healthy mortgage tax collections ($3.5 million over budget). Additionally, the city received $1.7 million of proceeds from the sale of city property for development that was not included in the adopted budget. On a structural basis, fiscal 2005 operations reflected a $2.1 million structural surplus, net of $3.5 million of backlog mortgage tax receipts and the proceeds from the land sale, offset by $4.1 million transferred to the capital projects fund to finance pay-as-you-go capital improvements. General Fund balance increased to a satisfactory $13.7 million, equivalent to 14.4% of General Fund revenues, of which $8.4 million (8.9% of revenues) was undesignated.

Based on unaudited results, officials anticipate a third consecutive operating surplus for fiscal 2006. Favorable results are expected to be driven by continued healthy mortgage tax collections ($1.5 million over budget), and permit fees projected to be $700,000 over budget. Further, mild winter weather and conservative budgeting for health insurance are expected to drive approximately $500,000 of expenditure savings. Despite appropriation of $2.8 million of fund balance in the 2006 budget, officials expect fiscal 2006 operations to have added $2.3 million to fund balance, increasing General Fund reserves to approximately $16 million (15% of revenues).

Moody's believes that operations may tighten in fiscal 2007, given an increased appropriation of fund balance ($4.5 million) and more aggressive budgeting for mortgage tax revenue, a source which has contributed significantly to fund balance replenishment in recent years. Our expectation that management will adjust operations to adapt to changes in revenue performance and maintain a satisfactory financial position is a key factor in the current rating upgrade. Mortgage tax receipts declined 19% from 2005 to 2006, although conservative budgeting assumptions continued to drive positive budget performance. The 2007 budget includes a 30% increase in mortgage tax revenues (budget to budget), although this represents a 12% decrease as compared with actual 2006 collections. Although officials expect to exceed this budget target, Moody's believes that the operating cushion derived from this economically sensitive revenue source is likely to decrease in fiscal 2007, given the slowing of the regional residential real estate market. Favorably, management expects the amount of fund balance appropriated in future budgets to decrease to historic levels approximating $3 million annually going forward. Moody's expects the city will grow reserves in step with budgetary expansion at a minimum going forward, given the city's reliance on economically sensitive revenue sources (sales taxes and mortgage tax receipts comprised 26.1% and 12.3%, respectively, of fiscal 2005 revenues).

LARGE DEVELOPMENT PROJECTS EXPECTED TO DRIVE CONTINUED GROWTH

Moody's believes that New Rochelle will continue to benefit from its sizable $10.8 billion tax base and ongoing development. The city is densely developed and is a largely residential community located approximately 16 miles northeast of New York City (G.O. rated A1). Residents benefit from various employment centers, including opportunities in New York City as well as within Westchester County (G.O. rated Aaa). Assessed values have declined at an average rate of 0.4% annually during the five years ended 2007, largely reflective of successful tax appeals by commercial tax payers. However, full valuation has increased an average of 18.9% annually over the same period, reflective of significant ongoing development and strong market value appreciation. Wealth levels in the city exceed state averages and full value per capita is a strong $147,401. The city continues to experience significant downtown residential and commercial development. Major projects expected to be completed during 2007 include Trump Plaza, (185 condominium units) and Avalon II (588 rental units). Future growth is expected to be driven by several large projects currently in the development phase: LeCount Square, a mixed use project to include 1 million square feet of office, retail and hotel space; the 438-condominium unit Church Division development; and Echo Bay, a mixed use project on 22 acres of waterfront property.

DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's expects the city's debt burden will remain manageable, given the practice of paying for capital expenditures from the operating budget and ongoing full valuation growth. The city's direct debt burden is below average at 1.1% and increases to an average 2.3% when the overlapping obligations of Westchester County and the New Rochelle City School District (G.O. rated A1) are taken into account. Debt service comprised an average 9.1% of fiscal 2005 operating expenditures, down from 12.5% in fiscal 2002. Principal is amortized at a satisfactory rate of 59.5% within ten years. Borrowing plans are modest, including approximately $15 million for relocation of the city's garage and sanitation yard, to be issued in two to three years.

KEY STATISTICS:

2000 Population: 72,182

2005 Population (est.): 72,967

2007 Full valuation: $10.76 billion

2007 Full value per capita: $147,401

Direct debt burden: 1.1%

Overall debt burden: 2.3%

Payout of principal (10 years): 59.5%

FY 2005 General Fund balance: $13.7 million (14.4% of General Fund revenues)

FY 2006 General Fund balance (unaudited): $16 million (15% of General Fund revenues)

Per capita income as a % of State: 136.6%

Median family income as a % of State: 140.7%

Parity debt outstanding: $88 million

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