

Rating Action: Moody's affirms Glendale, AZ's A3 GOULT and assigns positive outlook; related ratings also revised to positive

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Approximately \$932.6 million of debt affected

New York, June 09, 2015 -- Moody's Investors Service revised Glendale, Arizona's rating outlooks to positive from stable for both the city and its water and sewer utility. At this time, Moody's also affirmed the city's GOULT rating at A3 (\$145.3 million of debt affected). Moody's also affirmed various special tax obligations as follows: senior general excise tax debt at A3 (\$245 million of debt affected), transportation excise tax debt at A3 (\$84.5 million), and highway user revenue debt at A3 (\$15.7 million of debt affected). Also, we upgraded the city's subordinate general excise tax debts to A3 from Baa1 (\$197.1 million of debt affected). Lastly, we affirmed the city's water and sewer revenue debt at A1 (\$197.2 million of senior debt and \$47.8 million of subordinate debt affected).

SUMMARY RATING RATIONALES

GOULT AND SPECIAL TAX

The affirmation of the A3 GOULT rating reflects the city's improving, though still modest, operating position benefitting from healthy economic trends that support 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. The city also bears significant enterprise risk exposure to professional sports facilities that includes a sizable annual arena management fee paid to owners of the NHL's Coyotes and long-term debt secured by the city's operating excise taxes.

The A3 special tax ratings reflect solid and improving coverage of annual debt service due to the ongoing improvement in the regional economy. The upgrade to A3 from Baa1 for the subordinate general excise tax debt similarly reflects favorable trends and healthy coverage. The special tax obligations are rated equivalent to the GOULT rating in accordance with Moody's US Public Finance Special Tax Methodology. 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.

WATER AND SEWER ENTERPRISE

The affirmation of the water and sewer enterprise revenue debt ratings at A1 for both the senior and subordinate liens reflects a consistently solid operating position. Also, the largely residential and diversified customer base provides stability and the enterprise maintains still satisfactory debt service coverage. Additionally, the enterprise has consistently ample water supplies despite persistent drought conditions affecting the western U.S.

OUTLOOKS

GOULT AND SPECIAL TAX

The positive outlook on the city's GOULT and special tax obligations reflect our expectation that Glendale will continue to demonstrate positive trends. Management continues to budget conservatively and drive financial performance toward a stronger operating position, including a new policy to grow general fund reserves to 25% of revenues within the next five years. The economy and tax base will continue to perform well and in-line with the greater Phoenix (Aa1 stable) area.

WATER AND SEWER ENTERPRISE

The positive outlook on the city's 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 also benefits from reliance on regular service charges to support operations, and capital needs will be funded on a pay-go basis without immediate plans for additional debt. Management expects the city to adopt rate increases starting within the next two years to support a healthy operating position.

WHAT COULD MAKE THE RATINGS GO UP

GOULT AND SPECIAL TAX

- Sustainably higher reserves more aligned with higher-rated peers
- Reduction in net cost of operations and debt service related to professional sports facilities
- 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

WHAT COULD MAKE THE RATINGS GO DOWN

GOULT AND SPECIAL TAX

- Deterioration of the city's financial position
- Growth in operating costs and debt service related to professional sports franchises
- Higher fixed costs burden, including additional leveraging of excise taxes

WATER AND SEWER ENTERPRISE

- Significant declines in debt service coverage
- Unwillingness to implement prudent rate increases
- Sharp declines in available water supplies

OBLIGOR PROFILE

Glendale is located west of Phoenix and has a population of approximately 226,721 residents. The water and sewer utility had 61,796 water connections as of FY2014, of which nearly 90% are residential users, along with 57,385 sewer connections.

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 54% of this capacity for FY2010-14. The Central Arizona Project, which 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.

LEGAL SECURITY

Not applicable

USE OF PROCEEDS

Not applicable

RATING METHODOLOGIES

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

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