

Fitch Assigns Initial 'AA-' Rating to Dover, DE GOs
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Fitch Ratings-Washington, D.C.-September 19, 2003: Fitch Ratings assigns a 'AA-' underlying rating to the City of Dover, DE's approximately \$3.4 million general obligation refunding bonds, series 2003. The Rating Outlook is Stable.

This is Fitch's first rating for general obligations of Delaware's capital city, which also applies to \$375,000 of outstanding (net of refunded par) general obligation bonds. The current offering, which will be dated as of delivery, is scheduled for negotiated sale with Merrill Lynch & Co. on or about Sept. 25. The bonds will mature July 1, 2004-2016. Dover's general obligations are secured by the city's full faith and credit pledge and are payable from unlimited ad valorem taxes.

The rating considers Dover's stable employment base anchored by state government and the Dover Air Force Base (AFB), a sound financial profile, and a low debt burden with minimal capital needs. The city's ample available land, a low tax burden, and close proximity to major employment centers continue to attract residential and related commercial development. The recent sale of the Dover Mall and its planned renovation by the Mills Corp. should further strengthen Dover's status as a commercial, educational, and health center on the Delmarva peninsula. Dover's population grew 18% and 17% over the past two decades, respectively. The residential unemployment rate for July 2003 was 4.2%, a level that is largely unchanged over the past three years.

Dover's financial position is solid, despite some volatility in general fund reserves over the past three years. Unreserved general fund balance was a strong 16.3% of expenditures and transfers out in fiscal 2002, up from 5.1% in fiscal 2001 and more in line with historical norms. The city's general fund operations are significantly intertwined with its healthy utility enterprise funds. Annual transfers from the water and sewer and electric utility funds, recently formalized at 8% of each fund's respective operating revenue, subsidize and support the general fund. Additionally, allocated shares of city administrative services performed on behalf of the utilities are billed to the each utility monthly. The city maintains significant working capital and contingency reserves across all major operating funds, although the general fund policy was breached in fiscal 2001.

The city's tax-supported debt burden is very low, reflecting limited general government service functions and consistent use of operating budget resources to finance capital improvements. Overall debt, including the city share attributable to surrounding Kent County and the Capital School District is a modest \$720 per capita and 1.4% of the market value of taxable property. Nearly all of Dover's debt obligations are in the form of self-supporting electric and water and sewer utility revenue bonds. The 2004-2008 capital plan totals \$49 million, mostly for utility projects. The city's general fund will finance 20% of the total cost of the program; no general obligation debt is programmed through the period.

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Fitch Rates Dover, DE's \$7.96MM Water & Sewer Revs, 'A'
19 Sep 2003 4:46 PM (EDT)

Fitch Ratings-New York-September 19, 2003: Fitch Ratings assigns an 'A' rating to the City of Dover, DE's (the city) approximately \$7.96 million water and sewer revenue refunding bonds, series 2003. Dated as of delivery, the bonds will mature serially July 1, 2004-2023 and are scheduled for a negotiated sale on Sept. 25, 2003 led by Merrill Lynch & Co. Bond proceeds will refund a portion of the city's outstanding series 1986B, 1993, and 1993A water and sewer revenue bonds, for net present value savings estimated at 5.2% of refunded par. The Rating Outlook is Stable.

The 'A' rating reflects the water and sanitary sewer system's (the system) solid reserves and liquidity, modest capital needs, and adequate legal provisions. Other considerations include the concentration among the top users of the system and missed coverage levels in fiscal 1997 and 1998. Fitch Ratings believes that new management's actions to raise rates and control expenditures will continue to improve the financial performance of the system.

The system serves residents within the city, as well as portions of Kent County adjacent to the city. The water system, with 11,670 accounts, receives its water from 15 deep wells and seven shallow wells and includes one water treatment plant and six elevated storage tanks. Average day water demand is 5.26 million gallons per day (MGD) with peak day demand at 8.2 MGD. The city reports that the facility and its water supply are sufficient to meet its growth needs through at least 2015. The top ten water customers comprise 27.5% of total water revenues.

The sanitary sewer system collects an average 4.2 MGD of sewerage from 10,500 accounts and conveys the waste to the Kent County wastewater treatment facility. All treatment is conducted at the county-owned facility. The city is a wholesale customer and passes all county costs of service on to ratepayers. Combined water and sewer rates are regionally competitive. The county is pursuing expansion options at the facility to increase capacity.

Financial operations are sound with solid reserves and liquidity. The system had 158 days cash on hand at the end of fiscal 2002 and net revenues covered maximum annual debt service (MADS) on all parity debt, prior to this issuance, 1.82 times (x). In recent years, prudent financial management has restored the financial position of the system after it missed its rate covenant, equal to 1.20x MADS, in fiscal 1997 and 1998. The covenant violation was a result of aggressive revenue projections and a change in the billing cycle by the county which resulted in higher than budgeted expenditures. After sizable expenditure cuts in fiscal 1999, the system regained sound coverage and should continue in this path as no additional debt is planned to fund the \$9.4 million fiscal 2004-2008 capital plan.

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