



Virginia GFOA Conference

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The Current Slow Down in Property Valuation and What It Means For Credit Quality

S&P Perspective

- **Prior pace of price acceleration was on an unsustainable trajectory**
- **In many areas and in many circumstances residential housing prices and monthly carrying costs have moved too far away from household income.**
- **Prior national housing slump included a large speculative building component than is not as evident in the current slowdown**

What S&P is Watching

- **Length of the real estate cooling**
- **Is it the market stopping to catch its breath or the beginning of a prolonged decline?**

What S&P is Watching

- **Is The Slowdown Affecting All Property Tax Classifications (residential/industrial/commercial properties)?**
- **Recent conversations with Arlington County, Loudoun County, and other Virginia governments S&P has been in contact with reveal a common trend i.e. commercial/industrial valuation increases offsetting residential slowdown)**
- **In many instances single family leveling off but overbuilt condominiums faring worse.**

What S&P is Watching

- **Consumer Debt Profile/Sub Prime Issues**
- **Have households overbought relative to their real resources?**
- **Is there too much exposure to mortgage products (adjustable rate mortgages, balloon payments no principal pay downs in early years etc), that put property tax payers at great risk if rates rise?**
- **Are there signs of more households late on mortgage payments?**
- **Are property tax payers increasingly making late tax payments?**
- **Is there a rise in foreclosures?**

What S&P is Watching

Are Building Related Receipts Coming in Below Budget:

- **Building permit fees**
- **Excise taxes**
- **Recordation taxes**
- **Property taxes**
- **Interest income**

What S&P is Watching

- **Is The Slowdown Impacting Employment and Economic Activity?**
- **Everyone knows how important construction activity is to economic performance**
- **Is there indication of job erosion in the employment base directly or indirectly tied to the slowdown?**
- **Is it causing a rise in unemployment?**

What S&P is Watching

- **How is Management Reacting to the Slow Down?**
- **Ability to recognize a budget/revenue shortfall and react before it becomes a problem**
- **Use of reserves not necessarily a credit concern as long as subsequent budgets recognize and adjust for the potential prolonged decline if it occurs**

What Would Cause Credit Concerns

- Evidence of continued downward spiraling in valuation that exerts financial pressure on the government without a corresponding plan to offset such strain.
- Lack of management initiatives to adapt to a prolonged slowdown.

Final Thoughts

- **Higher rated credits are typically less vulnerable to downward portion of economic cycles (and potential credit deterioration than lower rated credits) because attributes of higher rated issuers include:**
 - Generally larger, more diverse tax bases
 - Higher incomes/more affluence
 - Proactive management that has demonstrated ability to meet challenges and adjust to changing circumstances
 - Sufficient financial cushion and final flexibility to adjust as needed

Questions

Comments?

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