Palm Beach County, Florida

Public Improvement Revenue Bonds
New Issue Report

Ratings

New Issues

Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project), Taxable Series 2015C	AA+
Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project), Tax-Exempt Series 2015D	AA+
Outstanding Debt	
General Obligation Bonds	AAA
Non-Ad Valorem Revenue Bonds	AA+

Rating Outlook
Stable

Related Research
Fitch Rates Palm Beach County, FL's Non-Ad Valorem Bonds 'AA+'; Outlook Stable (November 2015)

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New Issue Details

Sale Information: $65,385,000 Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project), Taxable Series 2015C, and $59,630,000 Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project), Tax-Exempt Series 2015D, via negotiation on Nov. 17.

Security: The county's non-ad valorem (NAV) revenue bonds are special obligations of the county, payable from its covenant to budget and appropriate (CB&A), by amendment if necessary, NAV revenues. The availability of NAV revenues to pay debt service is subject to the funding of essential government services and obligations with a specific lien on NAV revenues. Such a covenant shall be cumulative to the extent not paid, and shall continue until all required amounts payable under the indenture have been paid.

Purpose: To fund the construction of a Major League Baseball spring training facility for joint use by the Washington Nationals and Houston Astros.

Final Maturity: Dec. 1, 2045 (series 2015C); Dec. 1, 2045 (series 2015D).

Key Rating Drivers

'AAA' Rated Credit Strength: The county's 'AAA' GO rating is supported by an extensive and robust economy, satisfactory financial condition and manageable debt and retirement liabilities.

CB&A Debt One Notch Off GO: CB&A debt is rated one notch below the county's GO bonds due to the absence of a specific pledge and the inability to compel the county to generate NAV revenues sufficient to pay debt service.

Ample NAV Revenue Base: NAV revenues represent a broad and diverse set of revenue streams that in aggregate provide adequate coverage of CB&A debt service requirements.

Adequate but Diminished Finances: Finances have declined in recent years, with fiscal 2014 reserves down near the minimum range of 15%–20% of spending under the county's financial policies. Management projects balanced operations in fiscal 2015 and fiscal 2016.

Sustained Economic Recovery: The area economy is experiencing a prolonged post-recession recovery that is now in its fourth year. While recent job growth has moderated, a rebounding housing market and numerous development projects around the county are expected to further boost tax base growth over the next two or three years.

Moderate Debt Levels: The county's debt burden is generally modest, although debt amortization has slowed with this issue. Fitch Ratings expects debt levels to remain manageable.

Rating Sensitivities

Structurally Balanced Operations: Fitch views the county's return to structural balance in fiscal 2015 or 2016 to be important to rating stability.

Rating History

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	11/11/15
AA+	Affirmed	Stable	4/20/15
AA+	Affirmed	Stable	1/27/15
AA+	Affirmed	Stable	8/25/14
AA+	Affirmed	Stable	7/18/14
AA+	Affirmed	Stable	9/30/13
AA+	Affirmed	Stable	6/1/12
AA+	Affirmed	Stable	8/3/11
AA+	Affirmed	Stable	9/14/10
AA+	Affirmed	Stable	8/4/10
AA+	Affirmed	Stable	4/30/10
AA+	Affirmed	Negative	10/29/08
AA+	Affirmed	Negative	7/30/08
AA+	Assigned	Stable	11/19/07

Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

Exposure Draft: U.S. Tax-Supported Rating Criteria (September 2015)

Credit Profile

The county, located along the southeast coast of Florida, is the largest in the state, encompassing 2,228 square miles. With a population of nearly 1.4 million, it contains 38 municipalities including the cities of West Palm Beach and Boca Raton.

Extensive and Diverse NAV Base

The county's NAV revenues include a broad mix of special taxes, license and permit revenues, fee income, and service charge revenues. While most NAV tax revenues are levied at the maximum or set rate, the large component of service charges and fees affords the county some flexibility in the ability to raise additional revenues. Overall NAV revenues have fluctuated over the past five years but were solidly up in fiscal 2014, with additional growth projected for fiscal 2015.

Fiscal 2014 NAV revenues totaling $392 million are sufficient to cover NAV-secured maximum annual debt service, even when essential services consisting of general government and public safety expenditures are taken into account. Coverage is expected to improve as annual NAV debt service costs decline gradually after fiscal 2017.

Diverse Economic Underpinnings

The county's economy is supported by its traditional underpinnings of agriculture, tourism, government, healthcare and aerospace supplemented by growing bioscience and higher education sectors. Leading employers include the Palm Beach County School Board, the county government, Tenet Healthcare Corporation, and Florida Power and Light. Florida Atlantic University (FAU) enrolls over 20,000 students on campuses within the county.

County employment fell by over 9% between 2007 and 2010 as a result of the recession but has consistently gained jobs since then. Employment growth in 2013 was 3.4% and an additional 3.6% in 2014. Year-over-year growth moderated in 2015 with average employment through September up only 0.5% from the prior year. The county's unemployment rate as of August 2015 was 5.5%, comparing favorably with 6.5% reported the year before. However, the decline was mostly attributable to contraction of the labor force rather than employment growth.

The county is experiencing a wave of new development, including office buildings and mixed-use projects in the downtown urban areas and large residential projects in the suburbs. Other indicators of economic vitality include building permit values, which increased by 6.7% in fiscal 2015. Tourism continues to expand, with the five-cent tourist development tax gaining over 11% in fiscal 2014 and 13% in fiscal 2015. Officials anticipate that the spring training facility to be financed with this issue will provide further impetus to the county's tourist sector. In February 2015, the county increased the tourist development tax to six cents, which will generate additional revenues for tourist-related activities.

Emerging Bioscience Cluster

The formation of a bioscience cluster in the northern part of the county has attracted a number of bioscience firms to the area. Scripps Research Institute, a biomedical research firm, and Max Planck Florida Institute, in connection with FAU, are driving such growth. Recently, Sancilio & Company, Inc., a pharmaceutical developer, announced an investment of $6.7 million to expand its plant operations within the county.

Tax Base Growth Accelerates

Housing continues to recover, with median home values up 12% over the past year, according to the Zillow Group. A surging housing market has boosted the county's tax base. Following a 27% drop between fiscal years 2008 and 2012, taxable values stabilized in fiscal 2013 and grew by 4% in fiscal 2014 and an additional 7% in fiscal 2015. Fiscal 2016 valuations jumped by 9.4% to $153 billion but remain below the pre-recession peak. Management projects assessed values to grow an additional 7%–8% in fiscal 2017 before moderating to 3%–5% thereafter.

General Fund Financial Summary

($000, Audited Fiscal Years Ended Sept. 30)

	2010	2011	2012	2013	2014
Total Tax Revenue	649,765	641,205	634,631	642,472	665,978
License and Permits	35,430	34,873	33,027	32,782	35,693
Fines and Forfeits	1,194	3,680	2,783	2,970	4,213
Charges for Services	107,503	156,308	153,358	164,874	188,593
Intergovernmental Revenue	30,739	129,720	133,339	129,430	111,936
Other Revenue	20,293	16,274	18,059	7,401	10,598
General Fund Revenue	**844,924**	**982,060**	**975,197**	**979,929**	**1,017,011**
General Government	132,892	253,817	240,794	250,053	258,266
Public Safety Expenditures	34,490	453,962	444,089	458,096	486,714
Health and Social Services Expenditures	49,277	48,513	47,617	50,421	50,716
Culture and Recreation Expenditures	56,159	52,820	48,206	50,994	52,771
Capital Outlay Expenditures	734	17,350	25,290	19,028	28,081
Debt Service Expenditures	106	—	—	—	—
Other Expenditures	41,979	40,106	38,360	38,042	40,282
General Fund Expenditures	**315,637**	**866,568**	**844,356**	**866,634**	**916,830**
General Fund Surplus	**529,287**	**115,492**	**130,841**	**113,295**	**100,181**
Transfers In	43,730	19,849	29,967	22,874	18,376
Other Sources	—	—	—	—	1,427
Transfers Out	584,789	128,846	143,796	153,860	135,758
Net Transfers and Other	**(541,059)**	**(108,997)**	**(113,829)**	**(130,986)**	**(115,955)**
Net Surplus/(Deficit)	**(11,772)**	**6,495**	**17,012**	**(17,691)**	**(15,774)**
Total Fund Balance	169,116	200,780	217,550	200,123	184,129
As % of Expenditures, Transfers Out and Other Uses	18.8	20.2	22.0	19.6	17.5
Unreserved Fund Balance[a]	167,041	—	—	—	—
As % of Expenditures, Transfers Out and Other Uses	18.6	—	—	—	—
Unrestricted Fund Balance[b]	—	178,636	194,138	175,745	158,030
As % of Expenditures, Transfers Out and Other Uses	—	17.9	19.6	17.2	15.0

[a]Pre-GASB 54. [b]Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

Reduced But Satisfactory Financial Position

Officials have been challenged since 2008 by sizable declines in taxable values — which generate property taxes, the county's largest source of general fund revenues — and other economically sensitive revenues against their goal of maintaining government services. Management has responded by raising tax rates three times during this period and reducing the number of employees and other costs as well as tapping reserves.

Modest, planned general fund operating deficits have been reported in four of the past six fiscal years. Diminished reserve levels remain adequate but are approaching the bottom of the county's target range of 15%–20% of general fund expenditures and transfers out. Fitch believes that further deterioration of financial margins on a sustained basis would raise potential rating concerns.

Fiscal 2014 Deficit Reduces Balance to Minimum Target

The county reported a general fund drawdown of $15.8 million for fiscal 2014 (1.5% of spending), a better result than the budgeted $36 million drawdown. An uplift in property tax revenues plus growth in sales tax, utility tax and other major revenue sources provided partial funding for an across-the-board salary increase of 3% for most employees, higher costs for public safety operations and rising pension contributions.

The drawdown reduced fiscal 2014 unrestricted (all unassigned) fund balance by $17.7 million to $158.0 million, or 15% of spending. As such, reserves are at the low end of the county's fund balance target.

The fiscal 2015 budget benefits from a 7% increase in the tax base generating an additional $44 million in property tax revenues. Other major revenue sources such as sales and gas taxes are also trending above prior year receipts, pushing overall revenues up by $60 million. Spending incorporates another 3% wage rise as well as some additional staffing. Management projects fiscal 2015 operations to be at break-even with no change in total unrestricted general fund balance.

The fiscal 2016 budget is balanced and benefits from a substantial uplift in property tax revenues due to the sizable expansion of the tax base. These added revenues offset higher costs due in part to another 3% wage hike. Management projects a small increase in general fund reserves at fiscal year end, which Fitch views favorably.

Moderate Debt Load

Debt levels are moderate with a debt burden of 1.9%, or $2,675 on a per capita basis. Over 85% of the county's direct debt consists of bonds secured by the county's NAV revenues. With the new issue, principal amortization has slowed from 68% of principal retired within the next 10 years to a still satisfactory 60%.

The county's five-year capital improvement plan for fiscal years 2016–2020 identifies a manageable $171.2 million of general government capital needs with no plans to fund these needs with debt. Consequently, debt levels could decline as $389 million of outstanding principal is scheduled to mature over the next five years.

Debt Statistics

($000)

This Issue	125,015
Outstanding Direct Debt – Net of Refunding	1,087,468
Total Net Direct Debt	**1,212,483**
Overlapping Debt	2,526,154
Total Overall Debt	**3,738,637**
Debt Ratios	
Net Direct Debt Per Capita ($)[a]	867
As % of Market Value[b]	0.6
Overall Debt Per Capita ($)[a]	2,675
As % of Market Value[b]	1.9

[a]Population: 1,397,710 (2014). [b]Market value: $192,820,341,000 (2014). Note: Numbers may not add due to rounding.

Retirement Obligations Not a Cost Pressure

The county participates in three pension plans. Most employees are members of the state-administered Florida Retirement System, which is relatively well funded. The other two plans are small defined benefit and defined contribution plans: a plan covering firefighters from the town of Lantana employed by the county (Lantana Plan) and the Palm Tran pension plan for members of the Amalgamated Transit Union (ATU).

The Lantana Plan is adequately funded, but the Palm Tran plan has historically been underfunded as contribution rates, established through negotiations with the ATU, have not met actual funding requirements. A 2013 agreement between the county and the ATU required the county to fund up the plan but reduced benefits for new employees, with the county afforded the ability to determine benefits. These changes are expected to improve future funding.

Funding for Palm Tran, according to a January 2014 valuation, increased to 75.3% from 65.8% in the previous year, or 67.8% from 59.3% under Fitch's 7% return assumptions. The unfunded liability for the relatively small Palm Tran plan is $24.2 million. Overall pension costs are not a cost pressure, accounting for just over 6% of general government spending.

Other post-employment benefits (OPEB) are offered to retirees as an implicit subsidy, with the exception of retirees from the Sheriff and Fire Rescue Union, who receive direct subsidies from the county. Consequently, over 90% of the county's aggregate OPEB annually required contributions (ARC) derive from those two programs. Funding is on a pay-as-you-go basis, and fiscal 2014 contributions constituted about 40% of the ARC.

In addition, the county provides long-term disability benefits to retirees in fire rescue, also funded on a pay-as-you-go basis. Combined unfunded actuarial accrued liability for the county's OPEB plans of $353 million represents a modest 0.2% of fiscal 2014 market value. Carrying costs, including debt service, pension contributions and the OPEB contribution, are manageable at less than 15% of general government spending.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.