FITCH RATES PALM BEACH COUNTY, FL'S NON-AD VALOREM BONDS 'AA+'; OUTLOOK STABLE

Fitch Ratings-New York-04 March 2016: Fitch Ratings has assigned an 'AA+' rating to the following public improvement bonds for Palm Beach County, Florida (the county):

--$125.265 million public improvement revenue refunding bonds, series 2016.

The public improvement bonds will be sold on a competitive basis on March 22, 2016. Proceeds will be used to refund a portion of the county's public improvement revenue bonds, series 2008 for debt service savings.

In addition, Fitch affirms the ratings on the following outstanding bonds:

--Approximately $141.6 million general obligation (GO) bonds at 'AAA';
--Approximately $850.3 million non-ad valorem revenue bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The non-ad valorem revenue bonds are special obligations of the county, payable from its covenant to budget and appropriate (CB&A), by amendment if necessary, non-ad valorem (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.

GO bonds constitute general obligations of the county, for which its full faith, credit, and unlimited taxing power are irrevocably pledged for the payment of principal and interest.

KEY RATING DRIVERS

SUPERIOR CREDIT STRENGTH: The county's 'AAA' GO rating is supported by an extensive and robust economy, satisfactory financial condition, significant financial flexibility, 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 support for CB&A debt service requirements.

ADEQUATE BUT DIMINISHED RESERVES: Financial operations have brought reserves down near the minimum range of 15% to 20% of spending under the county's financial policies. The rating reflects Fitch's expectations that management will maintain unrestricted reserves within the county's policy range.

SUSTAINED ECONOMIC RECOVERY: The area economy is experiencing a prolonged post-recession recovery which is now in its sixth 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 near term.

MODERATE DEBT LEVELS: The county's debt burden is low to moderate with rapid debt amortization. Fitch expects debt levels to remain in the current range given limited capital needs and bonding plans.

RATING SENSITIVITIES

STRUCTURALLY BALANCED OPERATIONS: Fitch views the county's return to structural balance in 2015 or 2016 and preservation of satisfactory reserves to be important to rating stability.

CREDIT PROFILE

The county, located along the southeast coast of Florida, is the largest county in the state, encompassing 2,385 square miles. With a population of nearly 1.4 million, the county 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 afford 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 fiscal 2015 according to unaudited results.

Fiscal 2015 NAV revenues totaling $400 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. This margin 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 2016 with average employment up only 0.4% from the prior year. The county's unemployment rate as of December 2015 was 4.5% comparing favorably with 4.8% reported the year before.

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 tourist development tax gaining over 11% in fiscal 2014 and 13% in fiscal 2015. In February 2015, the county increased the tourist development tax to by one cent to six cents, generating additional revenues for tourist-related activities.

EMERGING BIOSCIENCE CLUSTER

The formation of a bioscience cluster in the northern part of the county has also attracted smaller bio-science 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 their plant operations within the county.

TAX BASE GROWTH ACCELERATES

Housing continues to recover with median home values up 11% 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, grew by 4% in fiscal 2014 and an additional 7.2% in fiscal 2015. Fiscal 2016 valuations jumped by 9.5% to $153 billion but remain below the pre-recession peak. Management project assessed values to grow an additional 7% - 8% in fiscal 2017 before moderating to 3% - 5% thereafter.

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 its 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. Reserve levels remain adequate although sliding to the bottom of the county's target range of 15% to 20% of general fund expenditures and transfers out.

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. The county's budgets are typically conservative as Florida requires budgeting of 95% of revenues and 100% of expenditures. The drawdown reduced fiscal 2014 unrestricted (all unassigned) fund balance by $17.5 million to $158 million or close to 15% of spending.

RESULTS EXPECTED TO IMPROVE

Fitch's rating assumes the county will restore balanced operations and maintain satisfactory reserves as the economy strengthens; further deterioration of financial margins on a sustained basis would raise potential rating concerns. 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 projections show a modest increase in unassigned 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 is consistent with Fitch's expectation.

MODERATE DEBT LOAD

Debt levels are moderate with a debt burden of 1.8%, or $2,536 on a per capita basis. Over 87% of the county's direct debt consists of bonds secured by the county's NAV revenues. Principal continues to be amortized rapidly at 64% within the next 10 years.

The county's five-year capital improvement plan for fiscal years 2016 - 2020 identifies a manageable $754 million of general government capital needs, including roads, library, fire rescue and parks and recreation capital requirements. Officials are considering holding a 1% sales tax referendum in November with the proceeds, shared with the school board and municipalities, to be used for capital purposes. There are no plans at this time to fund these needs with debt. Consequently, debt levels could decline as $356 million of outstanding principal is scheduled to mature over the next five years.

RETIREMENT OBLIGATIONS NOT A COST PRESSURE

The county participates in three pension plans. Most employees are members of the state-administered Florida Retirement System (FRS), which is relatively well-funded. The other two plans are very small defined benefit and defined contribution plans whose pension costs represent less than 1% of county spending.

Overall pension costs are not a cost pressure, accounting for approximately 6% of fiscal 2014 general government spending. Carrying costs, including debt service, pension contributions, and the OPEB contribution are moderate at less than 105% of general government spending.

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Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the first quarter of 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.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from CreditScope, Lumesis, IHS, and Zillow Group.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875108
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314