MOODY'S INVESTORS SERVICE

# New Issue: Moody's assigns Aa1 to Palm Beach County's (FL) non ad valorem bonds

Global Credit Research - 04 Nov 2015

**Affects $135 M in debt**

PALM BEACH (COUNTY OF) FL
Counties
FL

**Moody's Rating**

| ISSUE | | RATING |
|---|---|---|
| Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project) Taxable Series 2015C | | Aa1 |
| **Sale Amount** | $75,385,000 | |
| **Expected Sale Date** | 11/11/15 | |
| **Rating Description** | Special Tax: Non-Sales/Non-Transportation | |
| Public Improvement Revenue Bonds (Professional Sports Franchise Facility Project) Tax-Exempt Series 2015D | | Aa1 |
| **Sale Amount** | $59,630,000 | |
| **Expected Sale Date** | 11/11/15 | |
| **Rating Description** | Special Tax: Non-Sales/Non-Transportation | |

**Moody's Outlook** STA

NEW YORK, November 04, 2015 --Moody's Investors Service has assigned a Aa1 rating to Palm Beach County's (FL) $135 million sale of Public Improvement Revenue Bonds, Series 2015 C and D. The outlook is stable.

SUMMARY RATING RATIONALE

The Aa1 non-ad valorem rating reflects the county's ample available non-ad valorem revenues, supported by the county's favorable credit characteristics. A scheduled drop-off in non-ad valorem debt service by 2016 allows for both modest planned additional borrowing needs, and enhanced financial flexibility.

Moody's maintains a Aaa rating on the county's general obligation and library district ratings. We also maintain a Aa1 rating on the county's non ad valorem revenue bonds.

OUTLOOK

The stable outlook reflects the county's still-favorable cash and fund balance reserve position, the rapidly recovering and broad-based economy and moderate debt position.

WHAT COULD MAKE THE RATING GO DOWN

- Depletion of cash and reserves associated with structural imbalances

- Renewed economic deterioration

- Over-leveraging of non-ad valorem funds

STRENGTHS

- Sizable and broad-based regionally-important economy that is rapidly recovering

- Satisfactory cash and fund reserve position

- Significant amount of available non-ad valorem revenues to repay these obligations

- Moderate debt position with debt service falloff

CHALLENGES

- Ability to maintain budgetary structural balance and adequate reserve levels

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: BROAD ECONOMY WITH ESTABLISHED TOURISM COMPONENT BEGINNING TO GROW

Although Palm Beach County's employment growth faltered during the recession, with losses in construction and real estate employment and the severe housing market correction, more recently, economic indicators have shown a solid rebound in economic activity. This is evidenced by increasing electric connections, consistently sound levels of building permit values, declines in unemployment rates, and increased taxable values. The county's economy has become more resilient over the last few years, broadening from its traditional tourism, agriculture and construction activities with new business sectors such as aerospace, medical and biomedical, and business and professional services. Demonstrating the diverse economy, the county's top 10 tax payers comprise a very small 0.1% of the total tax base.

The county's affluent population, with per capita income among the highest in Florida, has also been a stabilizing factor in the economy. The county's 5.6% unemployment rate in July, 2015 is below the 5.7% rate for the state and is the same as the 5.6% rate for the U.S., and well below its 2010 annual high of 11.7%.

The county also has an established tourism sector which has traditionally been a primary driver in the economy, and has recorded a fairly-constant number of visitors (about four million for the period of January through June, 2015). Recent indicators, such as tourist tax collections and the number of seasonal residents, point to sustained improvement in this sector. Palm Beach County is the second location of The Scripps Research Institute, one of the world's largest biomedical research institutes (non-profit). In addition, Max Planck, a German biomedical firm, has also located in the county and should complement the Scripps development, adding more depth and higher-paying jobs to the economy.

The county's tax base is a very large $217.5 billion (as of fiscal 2016) and has grown by a compounded average rate of 5.5% over the past five years. During the recession, the county's tax base fell by nearly a third. Positively, since reaching its post-recession low point in fiscal 2013, the county's full value has recovered to approximately 92% of its pre-recession high. Based on the county's estimated 2014 population of 1.4 million, the county has a full value per capita of approximately $159,897.

FINANCIAL OPERATIONS AND RESERVES: COUNTY FINANCIAL OPERATIONS CHARACTERIZED BY ADHERENCE TO MODEST TARGETED RESERVE LEVELS; STRUCTURAL BALANCE EXPECTED IN 2015

The county will likely maintain stable financial operations, given its strong financial management and recovering economy, despite recent draw downs in reserves. The county had planned draws in reserves through fiscal 2010, before some replenishment in fiscal 2011 and 2012. Additional operating deficits in fiscal 2013 and in fiscal 2014 are reported by county officials to be due to over-budgeting of investment income and of excess fees received from the Sheriff's Department. Despite a $15.8 million deficit in fiscal 2014 (originally projected to be a $30 million deficit), the county remains at both its targeted 8% reserve level and 15% to 20% fund balance target level (see below).

In fiscal 2015, more realistic budgeting of investment income and excess fees, as well as a 7.1% increase in the tax base, will result in balanced operations when unaudited financial results become available later in the year. Going forward, we believe similar levels of tax base growth, a roughly $26.5 million drop off in non-ad valorem debt service in 2016, and ongoing economic expansion will afford the county the opportunity to rebuild reserves to levels more appropriate to the current rating level. Failure to do so would place negative pressure on the rating.

Of note, the county also has tax rate flexibility, with the countywide operating tax rate at a moderate 53.3% of the statutory 10 mill maximum rate in fiscal 2015.

Liquidity

The county's General Fund net cash position at the close of fiscal 2014 was $279.4 million, or 27.0% of revenues. County investments are generally conservative and well-managed.

DEBT AND PENSIONS: FAVORABLE LEVELS OF COUNTY NON-AD VALOREM REVENUES

We expect the current level of non-ad valorem revenues to provide favorable repayment of non-ad valorem obligations. The county uses the covenant pledge as its primary financing vehicle, with about 83.9% of total debt ($1 billion) supported by non-ad valorem revenues. Gross non-ad valorem revenues are broad-based and have recovered from their five-year high, last reported in fiscal 2010. Fiscal 2014 gross available non-ad valorem revenues of $392.6 million (an increase of 4.2% from fiscal 2013) remain favorable in relation to the estimated $95.9 million MADS (2017) debt service on all non-self-supporting obligations. Net of essential general government and public safety expenses not paid from property taxes, the available non-ad valorem amount is $313.6 million.

Over the next ten years debt service on non-ad valorem debt declines by 35% or $24.9 million.

Non-ad valorem revenues are utilized for everyday expenses that effectively compete with debt service requirements on non-self-supporting obligations. While overleveraging of the covenant pledge could pressure operations if non-ad valorem debt service increases materially and available revenues (or property taxes) remain flat or decline, we do not expect this outcome in the near-term, and county officials have utilized this financing mechanism prudently.

In addition to $24.5 million in cash-funded debt service reserves for three outstanding non-ad valorem issues, the county has two separate non-ad valorem bond issues whose debt service reserves are provided for with two separate irrevocable letters of credit with Wells Fargo Bank, currently equating to $10.6 million. Reserve LOCs are associated with bonds that all mature by November 2017. Although LOCs provide an element of renewal risk associated with these reserve funds, in the event the bank terminates the facilities, the county, in the worst case scenario, would have six months to replace the facilities or fund the reserves in cash in equal monthly installments over one year. We believe the county's high quality rating with demonstrated market access, rapidly maturing debt, and the county's favorable liquidity, mitigates renewal risk to a large degree.

MODERATE DEBT POSITION AND MANAGEABLE BORROWING PROGRAM; RAPID DEBT SERVICE DECLINES

We believe the county's debt position will remain affordable given favorable debt service repayment, limited borrowing plans, and the county's sizable and recovering tax base. The county's infrastructure has traditionally been well funded, reducing demand for external funding of the capital program. Pay-as-you-go funding of new construction had declined in recent years, and then increased by 48% in 2014 over 2013. The direct net debt burden is modest at 0.5% (2.0% overall burden).

The county currently has a total of 9 direct bank placements with six different institutions that total $116.7 million as of October, 2015 (13.4% of total non-ad valorem obligations and 11.3% of total debt). Except as described subsequently for one variable rate issue, all placements are for the life of the bonds and have no acceleration or termination events. The county has very limited variable rate exposure (0.8% of total debt ) represented by an $8.2 million direct bank placement through maturity (except for one issue with SunTrust having a 20-year amortization and a 15-year put option). The county has no swap exposure.

Debt Structure

The county has a modest 0.9% variable rate exposure, and $129.6 million (13.4% of total debt) in direct bank placements. Payout of G.O. bonds is rapid with all bonds scheduled to repay within 12 years. Non-ad valorem obligations, while they pay out over a lengthy 30-year period, have almost 64% repaid within 10 years, and have a debt service schedule which drops off quickly.

Debt-Relative Derivatives

Palm Beach Co. has no derivatives.

Pension and OPEB

The county belongs to the state-administered Florida Retirement System (FRS), a multi-employer, cost-sharing retirement plan sponsored by the State of Florida (GO rated Aa1/Stable), with the exception of two small plans (Palm Tran and Lantana Firefighters). The county's annual required contribution (ARC) for the plan was $90.5 million in fiscal 2014, up from $69.8 million in fiscal 2013, but still down from $93.5 million in fiscal 2011 before employees began contributing 3% of their salary.

The adjusted net pension liability for the county under our methodology for adjusting reported pension data, is a moderate 1.98 times operating revenues and 1.8% of full value. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for the state-run plans in proportion to its contributions to the plans.

The Palm Tran pension plan was underfunded, and the county was required to fund up the deficiency over a three-year period ending in fiscal 2014. The $7.8 million contribution in fiscal 2014 is expected to moderate to about $5.4 million in fiscal 2015, depending on actuarial studies.

The county's fixed expenses, including debt service, pension and OPEB payments are a reasonable 15% of the county's fiscal 2014 GASB 34 expenditures.

The county's GASB 45 (OPEB) unfunded liability is about $352.6 million (countywide, excluding SWA), with a $28.1 million annual required cost in fiscal 2014, in relation to $11.7 million contributed (41.6%), representing the county's pay-as-you-go costs.

MANAGEMENT AND GOVERNANCE

As reflected in the Aa institutional framework score, Florida counties have a fairly diverse revenue structure, they rely primarily on property taxes to fund operations, and have renewed tax base growth as well as the ability to increase tax rates to the statutory 10 mill limit. Expenditures, which are primarily for public safety, have generally been, manageable, as have fixed costs. Counties have a strong legal ability to reduce expenditures if necessary.

KEY STATISTICS

Full Value, Fiscal 2015: $192.8 billion

Full Value Per Capita, Fiscal 2015: $146,061

Median Family Income as % of US Median: 99.7%

Available Fund Balance as % of Operating Revenues (General Fund and Debt Service), Fiscal 2014: 10.0%

5-Year Dollar Change in Available Fund Balance as % of Revenues: -18.5%

Cash Balance as % of Operating Revenues(General Fund and Debt Service) , Fiscal 2014: 28.8%

5-Year Dollar Change in Cash Balance as % of Revenues: -5.3%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of Assessed Value: 0.5%

Net Direct Debt / Operating Revenues: 0.6x

3-Year Average ANPL as % of Assessed Value: 1.9%

3-Year Average ANPL / Operating Revenues: 2.3x

OBLIGOR PROFILE

Palm Beach County is located in Southeast Florida and has a population of about 1.4 million people.

LEGAL SECURITY

The non-ad valorem obligations are secured by the county's covenant to budget and appropriate legally-available non-ad valorem revenues for bond repayment. The non-ad valorem obligations include an anti-dilution test requiring the total amount of non-ad valorem revenues to be greater than two times the maximum debt service on all non-self supporting debt and obligations paid from non-ad valorem revenues. There is no monthly set-aside requirement, with funds due to the paying agent one day prior to debt service payment. The bonds do not have a debt service reserve.

USE OF PROCEEDS

The county will use the bond proceeds to construct a baseball stadium and spring-training facility that will be used by two major-league baseball teams.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. The additional methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

**Analysts**

Gregory W. Lipitz
Lead Analyst
Public Finance Group
Moody's Investors Service

Leonard Jones
MANAGING_DIRECTOR
Public Finance Group
Moody's Investors Service

Julie Beglin
Additional Contact
Public Finance Group
Moody's Investors Service

**Contacts**

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA