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Summary:

Palm Beach County, Florida; Appropriations; General Obligation; Miscellaneous Tax

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Summary:

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Credit Profile		
US$65.385 mil pub imp rev bnds ser 2015C		
Long Term Rating	AA+/Stable	New
US$59.63 mil pub imp rev bnds ser 2015D		
Long Term Rating	AA+/Stable	New
Palm Beach Cnty misc tax		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Palm Beach County, Fla.'s taxable series 2015C and tax-exempt series 2015D public improvement revenue bonds. We also affirmed the 'AA+' rating on existing bonds that are secured by a covenant to budget and appropriate non-ad valorem revenues. At the same time, Standard & Poor's affirmed its 'AAA' rating on the county's general obligation (GO) debt outstanding. The outlook on all ratings is stable.

We believe that the county's revenue stream is primarily locally derived, and that the rating is therefore not directly constrained by the U.S. sovereign rating.

Palm Beach County's covenant to budget and appropriate from legally available non-ad valorem revenues secures the series 2015C and 2015D revenue bonds. Non-ad valorem revenues are available to pay debt service only after the county covers essential government services and debt service secured by direct pledges of one or more non-ad valorem revenues. With the exception of debt associated with the county's water and sewer system and its airport, Palm Beach County has not pledged any specific non-ad valorem revenues to any debt. Furthermore, the current administration has a policy that does not allow for the pledge of non-ad valorem revenues except for the water and sewer systems and the airport. The county covenants that non-self-supporting debt in any fiscal year will not exceed 50% of non-ad valorem revenues. Legally available non-ad valorem revenues increased approximately 4% in fiscal 2014 to $393 million, which covered maximum annual debt service (MADS) on the outstanding bonds 3.7x. The debt service schedule for its outstanding non-ad valorem revenue bonds is declining, which in our view, should allow for the continuation of substantial coverage following the current issuance. The county's anti-dilution test specifies that non-ad valorem revenue must be maintained at more than 2x MADS. The largest sources of non-ad valorem revenues in fiscal 2014 were charges for services (23.5%), half-cent sales tax revenues (20.2%), utility service taxes (10%), and electric franchise taxes (8.6%).

We understand that officials plan to use bond proceeds to finance the construction and equipping of a professional sports franchise facility for joint spring training of two major league baseball teams as well as minor league affiliates.

The complex will house a stadium, two team training facilities, practice fields, clubhouses, dedicated on-site parking areas, and other improvements for the Washington Nationals Baseball Club and the Houston Astros.

The county entered into a developer agreement on Aug. 18, 2015 with HW Spring Training Complex LLC, pursuant to which the developer has undertaken to coordinate and administer all aspects of the design, permitting, construction, development and delivery of the facility.

The county anticipates the bonds will be paid from a combination of lease revenue from the teams, state contributions, and the tourism development tax.

The 'AAA' GO debt rating reflects our assessment of the following factors for the county:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 23% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash of 65.5% of total governmental fund expenditures and 8.1x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges of 8% of expenditures and net direct debt that is 61.5% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Palm Beach County, with an estimated population of 1.4 million, is located in the Miami-Fort Lauderdale-West Palm Beach MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 106.4% of the national level and per capita market value of $157,900. Overall, the county's market value grew by 12.8% over the past year to $217.5 billion in 2015. The county unemployment rate was 5.9% in 2014.

The 2,023-square-mile county is centrally located on Florida's eastern coast. The county's established tourism base, significant health care sector, including an expanding biomedical presence, and other business service concerns support the county's economy. In our opinion, the employment diversity partially mitigates concerns over the possible loss of Office Depot, should a merger with Staples result in a relocation of the former's corporate headquarters. Office Depot is currently one of the county's 10 largest private employers with approximately 2,000 employees.

Approximately one-third of county residents are 55 and over, but we do not believe this has a negative impact on revenue growth and expenditure needs. County unemployment rates continue to improve and assessed values (AVs) continue to grow. Since 2012, AVs increased 10.6% to $139.5 billion. The county's market value rose for a third consecutive year in fiscal 2015. Management expects this trend to continue as the local real estate market recovers.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include a strong focus on financial and capital planning, evidenced by a five-year capital improvement plan that details the parameters and amount of debt and nondebt financing for all capital projects. The county adheres to its formal investment policy and monitors the budget regularly. Budget-to-actual results are monitored regularly by the budget department. Management is conservative in its budget assumptions and manages reserves in accordance with its stated policy of maintaining 15%-20% of general fund expenditures in its unassigned fund balance. The county has a three-year replenishment requirement should reserves fall below the 15% threshold. Palm Beach County also maintains a formal debt management policy. Finally, management performs five-year financial forecasting as part of the budget process that is updated annually. Structural balance is the county's main goal.

Adequate budgetary performance

Palm Beach County's budgetary performance is adequate in our opinion. The county had operating deficits of 1.7% in the general fund and 6.1% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

The county's use of fund balance in 2013 and 2014 was planned for tax stabilization purposes as revenues slowly recovered from the downturn. The 2014 operating deficit of $17.2 million, excluding one-time land sale proceeds (general fund expenditures plus transfers to the debt service and the Palm Tran special revenue funds), which was far less than the amount budgeted. Total governmental funds posted an adjusted drawdown of 6.1% in fiscal 2014 before accounting for bond and land sale proceeds. According to management, total governmental fund performance is typically affected by timing differences between when grant, bond, and other financing sources are received and when they are spent, because most projects are multiyear and have dedicated revenue sources.

About 65% of Palm Beach County's revenues come from property taxes, followed by charges for services at 22% of revenue. With property values recovering following the recession, and economically sensitive revenues performing well--which is consistent with our credit conditions forecast--officials are expecting strong revenue performance to contribute to balanced operations in 2015 and do not expect to spend down the budgeted reserves. Further, officials project that the county benefited from lower fuel prices, which reduced expenditures, and higher gas tax revenues. In addition, the sheriff department's expenditure requests were lower than anticipated, and the county expects reductions in debt service expenditures as of fiscal 2016 will promote the county's structural balance.

Very strong budgetary flexibility

Palm Beach County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 23% of operating expenditures, or $235.1 million. The available fund balance includes $158 million (15.6% of expenditures) in the general fund and $77.1 million (7.6% of expenditures) that is outside the general fund but legally available for operations. In addition, the county has the flexibility to raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

In our opinion, Palm Beach County maintains very strong budgetary flexibility, with an available general fund balance exceeding 15% of adjusted expenditures, and a written policy to keep reserves at 15%-20% of expenditures. In addition to its general fund, the county also has available fund balance in its capital projects fund and internal service funds that could be made available for operations if necessary. Together, these balances totaled $235 million, representing 23% of general fund expenditures at fiscal 2014 year-end (Sept. 30). In addition, we believe that the county retains substantial taxing flexibility because its millage rate of 4.7815 is well below the state's 10-mill operating cap.

The fiscal 2015 budget appropriates approximately $15 million of fund balance, which is less than in previous years. Despite the fund balance appropriation, management currently projects that the general fund balance will remain flat at fiscal 2015 year-end. Supporting that projection is our view of the county's conservative budgeting practices and strong year-to-date budget performance. The county's 2016 $1.175 billion general fund operating budget calls for a $5.7 million appropriation to increase, rather than decrease, fund balance. The budget includes a millage rate decrease of 0.9% in conjunction with the reduction in debt service expenditure.

Very strong liquidity

In our opinion, Palm Beach County's liquidity is very strong, with total government available cash of 65.5% of total governmental fund expenditures and 8.1x governmental debt service in 2014. In our view, the county has exceptional access to external liquidity if necessary.

Palm Beach County has exceptional access to external liquidity given that it has regularly issued GO. non-ad valorem, and utility-secured revenue debt. Given the positive results projected for 2015, we do not expect liquidity to deteriorate. In addition, we view Palm Beach County's exposure to refinancing and contingent liability risk as limited. While the county does have exposure to lines of credit associated with its series 2007C and 2006 public improvement revenue bonds that have permissive events of default and immediate acceleration as a remedy, we view the county's exposure as negligible as these instruments represent less than 0.8% of total governmental cash. In addition, while the county has approximately $116 million in direct placement debt, one of which is variable rate, we understand that there are no put features or exposure to acceleration risk on these instruments. Finally, the county has no swaps outstanding.

Adequate debt and contingent liability profile

In our view, Palm Beach County's debt and contingent liability profile is adequate. Total governmental fund debt service is 8% of total governmental fund expenditures, and net direct debt is 61.5% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, which is in our view a positive credit factor.

Included in the county's direct debt burden is approximately $18.75 million in HUD Section 108 loans for which the county is obligated to make payment if cash flows from the sub-recipients are insufficient. We understand, however, that the county has not had to step in to make payment, but that it would use community development block grant funds if payments were required. In addition, the county has $116 million of direct bank placements which do not have any immediate acceleration of principal risk. We also included $11.2 million in moral obligation bonds in the county's direct debt.

We understand the county does not have any significant additional debt plans that would affect its debt profile in the next two fiscal years.

Palm Beach County contributes to three separate pension plans: the Florida Retirement System (FRS); the Palm Tran defined-benefit plan; and the Lantana Firefighters' defined-benefit contribution plan. The majority of Palm Beach County's employees participate in the FRS plan. The county made 100% of its FRS annual retired contribution (ARC), or $90.5 million in fiscal 2014, which is a substantial increase from fiscal 2013's $69.8 million. The county had been underfunding its Palm Tran contributions (which represent approximately 12% of the combined ARC), but we understand that 2014 was the third year of a three-year plan to fully fund the deficiency, and officials have included the full ARC payment in the fiscal 2015 budget.

The county provides other postemployment benefits (OPEB) to general, sheriff, and fire rescue employees, including an explicit subsidy to the sheriff and fire rescue plans. The county's combined pension ARC and OPEB contributions represented a manageable 6.2% of expenditures in fiscal 2014.

Strong institutional framework

The institutional framework score for Florida counties is strong.

Outlook

The stable outlook reflects our view of Palm Beach County's very strong financial management and the recovering local economy, which we believe should contribute to financial and rating stability, including improved budgetary performance and the maintenance of very strong reserves in the next two years.

Downside scenario

While unlikely given management's record of very strong reserves and at least adequate budgetary performance, a sustained deterioration in Palm Beach County's financial position, or a substantial increase in its debt and contingent liability risk could lead to a downgrade.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- U.S. State And Local Government Credit Conditions Forecast, Oct. 20, 2015
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of November 9, 2015)

Ratings Detail (As Of November 9, 2015) (cont.)		
Palm Beach Cnty approp		
Long Term Rating	AA+/Stable	Affirmed
Palm Beach Cnty misc tax		
Long Term Rating	AA+/Stable	Affirmed
Palm Beach Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Palm Beach Cnty lib dist imp proj bnds dtd 07/08/2003 due 07/01/2004-2023		
Long Term Rating	AAA/Stable	Affirmed
Palm Beach Cnty pub imp rev bnds ser 2015A due 11/01/2035		
Long Term Rating	AA+/Stable	Affirmed
Palm Beach Cnty GO rfdg bnds (Lib Dist Imp Proj) ser 2010 dtd 09/07/2010 due 07/01/2011-2023		
Long Term Rating	AAA/Stable	Affirmed
Palm Beach Cnty (Libarary Dist Im Projs) GO		
Long Term Rating	AAA/Stable	Affirmed
Palm Beach Cnty (Waterfront Access Projs) GO		
Long Term Rating	AAA/Stable	Affirmed
Palm Beach Cnty non-ad valorem tax		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Palm Beach Cnty (Bio-Medical Research Pk Proj) non-ad valorem		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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