

RatingsDirect®

Summary:

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

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Credit Profile

US\$125.265 mil pub imp rfdg bnds ser 2016

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Palm Beach County, Fla.'s public improvement revenue refunding bonds, series 2016. At the same time, Standard & Poor's affirmed its 'AA+' rating on existing bonds that are secured by a covenant to budget and appropriate non-ad valorem revenues. Standard & Poor's also 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 2016 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 2% in fiscal 2015 from the previous year to \$400.5 million, which covered maximum annual debt service (MADS) on the bonds outstanding 3.9x. The debt service schedule for its non-ad valorem revenue bonds outstanding 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 2015 were charges for services (23.1%), half-cent sales tax revenues (21.1%), utility service taxes (10%), and electric franchise taxes (8.6%).

We understand that officials plan to use bond proceeds to partially refund the county's 2008 bonds for present value savings. There is no extension of maturity and savings are taken evenly over the maturity schedule.

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

(FMA) 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 in fiscal 2014;
- 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 at 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 at 8.0% of expenditures and net direct debt that is 69.1% of total governmental fund revenue, as well as low overall net debt at less than 3.0% 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 108.4% of the national level and per capita market value of \$157,964. Overall, the county's market value grew by 12.9% over the past year to \$217.6 billion in 2015. The county unemployment rate was 5.9% in 2014.

The 2,385-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 services 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.

About one-third of county residents are age 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 2013, AVs increased 14.7% to \$152.6 billion. The county's market value rose for a fourth consecutive year in fiscal 2016. Management expects this trend to continue as the local real estate market recovers. New construction increased again in 2016 to \$2.4 billion, a 35% increase from the previous year and overall taxable values increased 9% from the previous year. Furthermore, hotel room sales are 1.2% higher fiscal year-to-date.

Very strong management

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

Highlights include a strong focus on financial and capital planning, as 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; as well, the budget department regularly monitors budget-to-actual results. 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. Palm Beach County has a three-year replenishment requirement should reserves fall below the 15% threshold. It also maintains a formal debt management policy. Finally, as part of the budget process management performs five-year financial

forecasting 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% of expenditures 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 the 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 an operating surplus of about \$7 million. Major drivers of the operating surplus include lower expenditures associated with lower fuel prices 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.

The 2016 operating budget totals approximately \$1.175 billion and includes an appropriated increase of \$5.7 million of reserves to enhance future fund balance. With about seven months remaining in the current fiscal year, management reports positive revenue performance as compared to budget, particularly gas tax revenues and revenues related to new construction. Furthermore, the county continues to realize savings compared with budget, largely due to lower oil prices. As a result, management expects to end the year with another operating surplus for 2016.

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 \$158.0 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 funds 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 appropriated approximately \$15 million of the fund balance, which is less than in previous years. Despite the fund balance appropriation, management reports that available reserves increased by approximately \$10 million. 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, the 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 at 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 estimated 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 8.0% of total governmental fund expenditures, and net direct debt is 69.1% of total governmental fund revenue. Overall net debt is low at 1.7% 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 Palm Beach 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 that 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. Finally, the county also contributes to the Lantana Firefighters pension plan, which is a combined defined benefit and contribution plan that is funded at 84% and for which the county pays slightly more than its ARC.

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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Jan. 11, 2016
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Institutional Framework Overview: Florida Local Governments

Ratings Detail (As Of March 3, 2016)

Palm Beach Cnty approp
Long Term Rating

AA+/Stable

Affirmed

Ratings Detail (As Of March 3, 2016) (cont.)		
Palm Beach Cnty misc tax		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Palm Beach Cnty misc tax		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Palm Beach Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Palm Beach Cnty lib dist imp proj bnds dtd 07/08/2003 due 07/01/2004-2023		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Palm Beach Cnty APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Palm Beach Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Palm Beach Cnty (Library Dist Im Projs) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Palm Beach Cnty (Waterfront Access Projs) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Palm Beach Cnty non-ad valorem tax		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Palm Beach Cnty (Bio-Medical Research Pk Proj) non-ad valorem		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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