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Summary:

Indian River County, Florida; Miscellaneous Tax

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Table Of Contents

Summary:

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Credit Profile		
Indian River Cnty (Spring Training Fac) misc tax		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on Indian River County, Fla.'s series 2001 revenue bonds (spring training facility) outstanding to 'A+' from 'A'. The outlook is stable.

The upgrade reflects the application of our "Priority-Lien Tax Revenue Debt" criteria (published Oct. 22, 2018), which factors in the strength and stability of pledged revenue and the general credit quality of the municipality where taxes are distributed or collected, known as the obligor's creditworthiness.

The bonds are limited obligations of the county payable only from, and secured by, a lien on the following pledged revenue:

- Annual payments of $500,000 received by the county from the state pursuant to Section 212.20, Florida Statutes, the only revenue source securing the bonds beginning in 2022;
- The fourth-cent tourist development tax levied by the county; and
- 86% of the local government half-cent sales tax distributed to the county.

The Florida Office of Tourism and Trade and Economic Development has certified Indian River County as a location for a retained spring training franchise, enabling the county to receive money from the state under Section 212.20 of the Florida Statutes. These funds may be used only for the acquisition, construction, reconstruction, or renovation of a facility for a retained spring training franchise or to pay or pledge for the payment of debt service only on bonds issued for this purpose. Monthly distributions of $41,667 from the state's general fund to the county began in March of 2001, and extend for 30 years. Beginning in 2022, debt service on the bonds decreases to an amount essentially equal to the state payments, thereby providing 1x coverage on a stand-alone basis through maturity. Given that this revenue source is the only revenue source beginning in 2022, our assessment of the bonds is based on this revenue stream.

The fourth-cent tourist development tax is levied by the county on every person who rents or leases hotel, motel, or other accommodations for a term of six months or less. Similar to the state payments, proceeds from the fourth-cent tax are dedicated to construction or debt service costs associated with the spring training facility. In addition, in January 2019, the county's board of commissioners approved a change in county code to allow for this revenue source to be used to promote and advertise tourism in Florida both nationally and internationally.

The half-cent sales tax is levied on the sales price of each item or article of tangible personal property. The tax is levied and collected by the state and distributed monthly to Indian River County and municipalities within the county based on the population of the unincorporated and incorporated areas within the county.

The revenue pledges from both the fourth-cent tourist development tax and the local government half-cent sales tax cease and terminate for bonds maturing after April 1, 2021. The remaining bonds, which mature from April 1, 2022 to 2031, will be secured solely by the state payments.

We note that the county's board approved partial payoffs of the series 2001 spring training bonds in June 2013 totaling $2.3 million, and more recently in December 2018 totaling $1.1 million. We understand that these partial payoffs have already eliminated the need to use half-cent sales tax revenues and fourth-cent tourist development revenues for debt service repayment. As a result, state payments of $500,000 are currently sufficient to cover debt service.

The rating reflects our opinion of Indian River County's:

- Merely sum-sufficient debt service coverage beginning in fiscal 2022, when state payments will be the only revenue source securing the bonds;
- Very strong debt service coverage from pledged revenue for the bonds maturing through 2021, in addition to the lack of additional debt plans;
- Good income levels and adequate per capita retail sales; and
- Adequate 1.25x maximum annual debt service (MADS) additional bonds test (ABT) for additional bonds secured by revenue from the half-cent tax.

Economic fundamentals: Very strong

Our economic fundamental assessment is based on the economic underpinnings of the state given annual $500,000 payments received by the county, the only revenue source starting in 2022, are from Florida and collected statewide.

Florida's economy continues to outperform that of the nation with good population growth and positive net migration. The state estimates that it gained 340,000 residents in fiscal 2018 including an estimated 53,000 residents displaced from Puerto Rico after Hurricane Maria and who are expected to stay in Florida. Job growth in the state continues to outpace that of the nation with a 2.7% increase in payrolls in October 2018 that ranks Florida among the top-10 states for employment growth. However, growth has moderated somewhat. Gains in employment reflect broad-based growth across most sectors, particularly supported by construction employment. IHS Markit forecasts Florida's employment will continue to post higher-than-national growth at 3.7% and 2.7% in calendar years 2018 and 2019, respectively, before slowing to a predicted 2.4% and 1.9% in 2020 and 2021, respectively. The preliminary unemployment rate for December 2018, at 3.3%, was slightly below that of the nation's 3.9%. A relatively higher concentration of employment in the leisure and hospitality sector and a larger proportion of retirees somewhat dampen state income levels. Florida's per capita personal income stayed level in 2017 and represented what we consider a still-good 93% of the national level.

Revenue volatility: Low

We assess the volatility of revenues to determine the likelihood of the availability of revenues during different economic cycles. We have two levels of volatility assessment: macro and micro.

On a macro level, we consider sales and use tax revenues to have a low historical volatility assessment given the critical nature of the underlying services.

On a micro level, state payments awarded to the county are fixed at $500,000 per year and cannot be reduced without a change in authorizing legislation. As a result, there is no reason to worsen or improve on the macro assessment of volatility for this revenue type to the county.

Coverage and liquidity: Adequate

Pledged revenue has grown consistently over the past five years and stood at $9.8 million in fiscal 2018, a 5.0% increase from the previous year, largely a result of an increase in half-cent sales tax collections, which currently account for 87% of total pledged revenue. Fiscal 2018 pledged revenue provided very strong 8.0x coverage of MADS.

However, the debt service schedule reflects the drop-off of tax pledges after 2021. Beginning with fiscal 2022, the bonds will be secured solely from the state payment, and MADS coverage is reduced to sum-sufficient 1.0x.

The bond resolution allows that no additional bonds may be issued either using the state payment or the fourth-cent tourist development tax. A 1.25x historical ABT must be achieved before any new bonds secured by revenue from the local government half-cent sales tax may be issued. While we view the ABT as only adequate, the reliance on the half-cent tax revenue for operations discourages issuance of bonds to the maximum allowed under the ABT, and management has no plans to issue additional parity debt. Additional security is provided by a debt service reserve established under the bond resolution and funded to the least of 10% of the sale proceeds, MADS, or 125% average annual debt service.

Ultimately, we expect that coverage will remain stable but thin at 1.0x in fiscal years 2022-2031.

Obligor linkage: Mitigated

Upon receipt, revenues flow directly to the revenue account (which constitutes a trust fund separate and is distinct from the issuer's other funds and is to be only used for the purpose of financing debt service or spring training facilities). Given our view of the linkage to the county, the rating on the bonds is capped at a maximum of two notches above the GO rating on the county. However, this is not a constraining factor to the rating on the series 2001 revenue bonds.

Rating linkage to Indian River County

Even though the primary pledged revenue source for bond repayment is from fixed annual state payments provided to the county, we are linking the rating on the bonds to the county given the obligation remains that of the county.

We assess Indian River County's general operations, because we view overall creditworthiness as a key determinant of an obligor's ability to pay all of its obligations, including bonds secured by a special tax. A history of strong budgetary performance and favorable budget-to-actual variances has led to very strong flexibility and liquidity. In addition, Indian River County's strong economy supports the county's strong financial profile.

Indian River County, with an estimated population of 151,000, spans 497 miles in the middle of Florida's eastern coast, approximately 100 miles southeast of Orlando and 135 miles north of Miami. The City of Sebastian is the largest in the county, while the City of Vero Beach serves as the county seat. Given the county's 100 miles of waterfront property and 23 miles of Atlantic coastline, tourism is a major economic driver. Unemployment rates in the county stood at just 4.0% in 2018. Income levels are what we consider good, with per capita effective buying income at 112% of the national level. Per capita retail sales are adequate at 97% of the national average.

Outlook

The stable outlook reflects our expectation that pledged revenue will continue to provide very strong debt service coverage over the next couple of years. Hence, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

Although we are unlikely to do so in the two-year time frame of the outlook, we could lower the rating if pledged revenue declines substantially, resulting in materially lower coverage. We would also likely lower the rating if changes to enabling legislation reduce pledged state payments, causing insufficient debt service coverage for bonds maturing after fiscal 2021.

Upside scenario

Although we are unlikely to do so given the expiration of two of the pledged revenue in fiscal 2021, we could raise the rating in case of a substantial increase in projected coverage for bonds maturing in fiscal 2022 through maturity in 2031.