INFORMATIONAL ITEM

INDIAN RIVER COUNTY
OFFICE OF MANAGEMENT AND BUDGET

DATE:	September 26, 2016
TO:	Board of County Commissioners
THROUGH:	Jason E. Brown, County Administrator
FROM:	Michael Smykowski, Budget Director MS
SUBJECT:	Fitch Press Release

BACKGROUND

As part of its due diligence efforts, bond rating agencies conduct surveillance calls relative to outstanding debt to determine if, due to changing economic conditions, any change in the rating assigned to the bond issue is warranted.

Fitch Ratings, Inc. recently reviewed Indian River County's Long-Term Issuer Default Rating (IDR) and affirmed the rating at the existing 'AAA' level, reflecting the "county's exceptional financial resilience, superior budget flexibility, and prudent financial management."

Fitch Ratings, Inc. also reviewed the Spring Training Facility revenue bonds and affirmed the 'AA+' rating assigned to this debt, noting the "strong debt service coverage, solid expected growth prospects, and exceptional resilience that Fitch expects the revenue stream to show through a moderate economic downturn scenario."

The full text of the Fitch press release is included as an attachment to this agenda item.

FUNDING

There is no funding associated with this agenda item.

RECOMMENDATION

The information contained herein is for informational purposes only and does not require any formal action by the Board of County Commissioners.

INFORMATIONAL ITEM

APPROVED AGENDA ITEM

BY: ______________________________

Jason E. Brown, County Administrator

FOR: November 15, 2016

Indian River Co	Approved	Date
Admin		
Legal		
Budget	MS	11-7-16
Department		
Risk Manager		

Attachments:

Fitch Press Release

FITCH AFFIRMS INDIAN RIVER COUNTY (FL)'S SPRING TRAINING REVS AND IDR; OUTLOOK STABLE

Fitch Ratings-New York-02 November 2016: Fitch Ratings has affirmed the following ratings on Indian River County, FL:

--Long-Term Issuer Default Rating (IDR) at 'AAA';
--$6.7 million spring training facility revenue bonds, series 2001 at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The spring training facility revenue bonds are limited obligations of the county, secured by a first lien on a statutory annual distribution of funds from the State of Florida general revenue fund for new or retained professional sports facilities, and proceeds from the fourth-cent tourist development tax (TDT) levied by the county and 86% of the local government half-cent sales tax distributed to the county by the state. The lien on the TDT and half-cent sales tax is automatically released as of April 1, 2021 (10 years before the final maturity date of the bonds of April 1, 2031). The bonds are additionally secured by a cash-funded reserve equal to maximum annual debt service (MADS).

KEY RATING DRIVERS

The 'AAA' IDR reflects the county's exceptional financial resilience, superior budget flexibility and prudent financial management.

The 'AA+' rating on the special facility revenue bonds includes the strong debt service coverage, solid expected growth prospects, and exceptional resilience that Fitch expects the revenue stream to show through a moderate economic downturn scenario. The rating also reflects Fitch's expectation that pledged revenues will not be leveraged to the 1.25x ABT.

Economic Resource Base
Indian River County is located on the Atlantic coastline, approximately 135 miles north of Miami, and includes the cities of Vero Beach and Sebastian. The county's population has shown steady growth with a 2015 census estimate of 147,919, up 7% since 2010.

Revenue Framework: 'aa' factor assessment
Fitch expects revenues to rise at a slow pace but one that exceeds historical trends over the last decade or so, driven by growth in population and economic development. The county has considerable legal revenue raising ability with current millage rates well below the 10-mill statutory limit.

Expenditure Framework: 'aa' factor assessment
The county's pace of spending is expected to be in line with or marginally above revenue trends in the absence of policy action. Carrying costs for debt and retiree liabilities are moderate at 10%.

Long-Term Liability Burden: 'aaa' factor assessment
County debt and pension benefit liabilities are very low, estimated at below 3% of personal income. Liabilities are expected to remain low.

Operating Performance: 'aaa' factor assessment
The county's reserves have remained very high during and after the great recession, benefitting from the county's superior budget flexibility. Fitch expects the county will continue to maintain solid operations and gap-closing ability through economic cycles.

RATING SENSITIVITIES
LONG-TERM LIABILITIES: The rating is sensitive to a significant growth in long-term liabilities relative to total spending.

SPRING TRAINING FACILITY BONDS: The rating is sensitive to a material change in coverage resulting from additional leverage or a shift in the performance of pledged sales tax and/or TDT revenues. Furthermore, the rating is sensitive to changes in the credit quality of the state of Florida ('AAA' IDR with a Stable Outlook), with respect to pledged revenues related to the annual distribution of funds for professional sports facilities; due to the nature of this pledge, the bonds cannot be rated higher than one notch below the state's IDR. The rating assumes limited leverage of pledged revenues. Borrowing outside of this expectation would pressure the rating.

CREDIT PROFILE

The local economy of Indian River County is traditionally centered on agriculture and tourism, although it has diversified with an increased presence of health care and information technology, light manufacturing, wholesale and retail trade and service sector jobs. County home values endured steep declines during the recession and have notably recovered but remain below the 2006 peak. Assessed values have experienced similar declines during the recession (about 30% from 2008 through 2013) and have also exhibited similar expansion in recent years. The county's unemployment rate has improved considerably but still exceeds the state and the U.S average. The tourism sector continues to strengthen, with tourist development taxes up by 19% in fiscal 2015 attributable to an increase in visitors. The county's population is considerably older than the state and national averages, with above average income levels.

Revenue Framework
Property tax revenues are the county's largest revenue source, comprising 56% of general fund revenues in fiscal 2015. Property tax revenues experienced significant declines during the recession, due to the significant reduction in home values and state property tax reform. The county raised rates in 2009 and 2010 to offset the revenue decline.

The county's historical general fund revenue growth has lagged both U.S. GDP and inflation increases since 1999, due to the severe impact of the great recession and housing market decline in the state of Florida as well as the state property tax reform. Growth prospects are somewhat more positive, driven by continued population growth and development.

The county has ample legal revenue raising authority as the current millage is well below the property tax cap of 10 mills. The adopted tax rate for fiscal 2016 was 3.3602 mills.

Annual changes in the property tax rate are determined using a rolled-back or revenue neutral rate, which is then adjusted for changes in Florida's per capita personal income. However, this limitation may be overridden by vote of the county governing body. The county also has the ability to increase various license and permit revenues and service charges that make up a smaller but still notable portion of its revenue base.

Expenditure Framework
The county maintains solid expenditure flexibility with moderate carrying costs. Public safety is the largest spending item, with fiscal 2015 outlays comprising 48% of total general fund

expenditures. General government spending is the second largest spending category equal to about 24% of the total.

The county's pace of spending is expected to be in line with or marginally exceed revenue growth trends, absent policy action, due to the need to meet the demands of an expanding population.

Employee wages and benefits are the main expenditure driver. Wages and benefits are collectively bargained. County employees are largely represented by two unions; the county recently renewed one of its contracts for a three-year term and is in negotiations with the other union. Under state law, if an impasse is declared, both parties are required to engage in a non-binding mediation process after which the local government may impose contract terms for one year.

The county was able to manage the budget through the great recession by privatizing certain services, implementing hiring and wage freezes and layoffs, and using reserves. It has since increased staffing levels in recent years and reinstated pay increases; however, staffing levels are still below prerecession levels and the county's high proportion of public safety spending may present some practical restrictions on future expenditure flexibility. Fixed costs associated with debt and retiree liabilities are equal to about 10% of total government spending.

Long-Term Liability Burden

The county's long-term liability burden is equal to less than 3% of personal income and is expected to remain very low. The county's overall debt totals $145 million or about 1.5% of personal income and mainly reflects the overlapping obligations of the county school board. The county's direct debt amortizes at an aggressive pace with more than 90% of principal to be repaid within 10 years. Capital needs are manageable and largely related to transportation and utility system improvements financed from gas and sales tax revenues, impact fees, user fees and grants. The county does not contemplate any additional debt issuance at the present time. County officials are seeking voter approval to extend the existing sales tax levy for 15 years, upon its expiration in 2019. The tax levy currently generates about $16 million annually; the county plans to continue to use the funds to support its infrastructure and capital needs on a pay-as-you-go basis.

The county participates in the state-administered Florida Retirement System, a cost sharing multiple employer plan. FRS is adequately funded with an asset to liability ratio estimated at 82%, using a Fitch adjusted 7% discount rate. The county's net pension liability totaled $98 million as of the most recent report. The county historically funds 100% of the ARC.

Operating Performance

Fitch believes that the county's broad revenue raising ability and spending flexibility provide it with the ability to maintain reserves well in excess of a level consistent with a 'aaa' financial resilience assessment through economic cycles. Fitch's Analytical Sensitivity Tool (FAST) generates a general fund revenue decline of nearly 4% in a moderate economic downturn scenario. Fitch believes that the county is well positioned to manage through economic cycles while maintaining a high level of financial resilience, due to its financial reserve policy (unassigned reserves equal to 20% of total operational spending), ample revenue raising ability and solid ability to manage expenditures.

The county has demonstrated robust financial management by maintaining ample reserves. The county chose to draw on fund balance to pay down its debt during fiscal 2012 and fiscal 2013. For fiscal 2015, the county planned a $1.4 million drawdown of reserves, due to the expected use of funds previously set aside for legal expenses. Despite the operating deficits that occurred in each of these years, the county's unassigned reserve levels have remained in excess of 50% of total expenditures (after transfers). The county has well-defined fund balance policies, which outline a minimum unassigned fund balance equal to 20% of budgeted operating spending. The county also maintains a separate 5% reserve for both budget stabilization and emergency use. County officials are expecting favorable results for fiscal 2016, consistent with prior year results. The fiscal 2017 adopted budget is balanced and represents a 10% decrease from the 2016 budget, reflecting an increase in the tax base, no millage rate increase, new positions, and various capital improvements and technology upgrades.

Spring Training Bonds Demonstrate Solid Resilience
Fiscal 2015 pledged revenues totaled $8.5 million, including about $7.5 million of the county's local government half-cent sales tax, $566,774 in TDT revenue, and $500,004 from the state's allocation. Coverage of MADS was a strong 9.7x.

The half-cent sales tax and TDT revenues continued to perform well, with annual sales tax and TDT tax collections up around 6% and 19% in fiscal 2015, from the prior year. Sales tax collections through the first 11 months of fiscal 2016 are 3% higher than the prior comparable period. TDT tax collections through the first 10 months are 7% higher. The state payment represents a fixed amount payable to the county pursuant to Florida Statute 288.1162 and the county's certification by the state as a retained spring training franchise. Following the release of the half cent-sales tax and TDT pledge, bondholders will be solely secured by the state payments in 2021. MADS will decline to $499,750 resulting in MADS coverage just over 1x.

Based on the pledged revenue history, Fitch's Analytical Sensitivity Tool (FAST) generates a 3.8% revenue decline in a moderate downturn scenario. The largest decline in historical revenues was equal to a steep 20% from fiscal 2005 to fiscal 2010, reflecting the significant impact of the great recession on the Florida economy. Pledged revenues have since notably improved. Fitch expects revenue growth to continue at a pace that exceeds historic trends, to at least track the rate of inflation going forward. This is supported by the county's continued growth in population, continued improvement in home values, tax base expansion and economic development.

Given current solid coverage levels, the structure could tolerate a 90% decline in pledged revenues before MADS coverage reaches 1.0x. This level of tolerance is equivalent to about 24x times the FAST result and 5x the largest actual revenue decline. Fitch considers these results to be equivalent to a 'aaa' resilience assessment. The county has indicated that it does not expect to issue additional debt.

Contact:

Primary Analyst
Grace Wong
Director
+1-212-908-0652
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Kevin Dolan
Director
+1-212-908-0538

Committee Chairperson
Laura Porter
Managing Director
+1-212-908-0575

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

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

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478