Tagging Info

Fitch Affirms Florida Municipal Loan Council's Series 2010B Revs at 'AA'; Outlook Stable

Ratings Endorsement Policy
02 Jun 2014 1:48 PM (EDT)

Fitch Ratings-New York-02 June 2014: Fitch Ratings has affirmed the 'AA' rating on the following Florida Municipal Loan Council (FMLC) revenue bonds:

--$14 million, series 2010B.

In addition, Fitch assigns an 'AA+' implied general obligation (GO) bond rating to the Village of Palmetto Bay, FL (the village).

The Rating Outlook is Stable.

SECURITY

The bonds are limited obligations of the FMLC, payable from payments equal to debt service made by the borrower, the village), pursuant to the loan agreement.

Under the loan agreement, the village covenants to budget and appropriate (CB&A) in its annual budget, by amendment if necessary, an amount of non ad valorem revenue to satisfy its loan agreement. Additional security is provided by a cash-funded debt service reserve fund equal to the IRS standard.

The issuer has assigned and pledged all of its right, title, and interest in and to the loan agreement, including the right to receive loan repayments, to the trustee for the benefit of bondholders.

The rating is based on the security structure of the loan agreement as well as the general credit characteristics of the obligor, the village.

KEY RATING DRIVERS

STRONG FINANCIAL FLEXIBILITY: Strong financial flexibility is evident in the maintenance of high reserve levels, supported by prudent financial management. The maintenance of ample reserve levels is considered fundamental to the current rating.

ECONOMY BENEFITS FROM COUNTY EMPLOYMENT OPPORTUNITIES: Palmetto Bay is a mainly residential village that benefits from its proximity to Miami and the diverse employment base of Miami-Dade County. Village wealth levels are significantly above average.

LOW DEBT LEVELS: Overall debt is expected to remain moderately low, aided by the limited capital needs of the village and minimal pension liability.

COVENANT DEBT NOTCHING: A one-notch distinction in the rating on the revenue bonds from the implied ULTGO reflects the absence of a pledge of specific revenue and inability to compel the city to generate non-ad valorem revenue sufficient to pay bondholders.

AMPLE REVENUES AVAILABLE FOR DEBT SERVICE: Available non ad valorem revenues for debt service are broad and diverse, and Fitch believes these revenues will remain sufficient given the village's reliance on them to fund operational needs.

CREDIT PROFILE

The village was created with strong voter approval in 2002. With a 2012 population of 23,180, the village benefits economically from its location in Miami-Dade County (GOs rated 'AA' with a Stable Outlook by Fitch), approximately 15 miles south of the city of Miami. The tax base is composed primarily of low-density residences, and the limited commercial presence is oriented around automotive dealerships, large-box retailers, and office buildings.

STABILIZATION OF TAV

After significant TAV losses post-recession, the village's tax base appears to have stabilized, with fiscal 2013 marking a 2.4% increase and fiscal 2014 showing a slight .6% decline. The village projects increasing assessed values in proportion to the potential new development in and around downtown Palmetto Bay, however TAV in the near term may stay flat until these projects come online.

The fiscal 2014 tax rate of 2.447 mills is low for Florida and far below the 10-mill cap and has remained at that level since fiscal 2010. Village income levels are significantly above state and national averages, and the county's unemployment has declined recently to 6.6% in April 2014, which was slightly above state (6.2%) and national (6.3%) levels.

AMPLE REVENUES AVAILABLE FOR DEBT SERVICE

Revenues included under the covenant are broad and diverse, accounting for 58% of all budgeted revenues in fiscal 2014. Coverage of maximum annual debt service (MADS), inclusive of parity debt, was 3.0 times (x) based on fiscal 2013 audited figures and is projected at about 2.9x based on fiscal 2014 budgetary figures. The village has a history of cautious budgeting that has resulted in revenues coming in better than budget estimates.

The anti-dilution test requires the average of non ad valorem revenues for the prior two fiscal years to cover MADS at least 1.5x, and projected MADS for all debt secured or payable from non ad valorem revenues net of essential service expenditures must not exceed 20% of governmental fund revenues. The test is reasonably rigorous, categorizing about 88% of general fund expenditures as essential and requiring those needs to be funded before payment of CB&A debt service.

GOOD FINANCIAL OPERATIONS WITH EXCEPTIONAL RESERVE LEVELS

The village's financial flexibility is robust, enhanced by strong financial management and evidenced by a trend of strong reserve balances. The fiscal 2013 unrestricted fund balance of $13.1 million equaled that year's spending. Year-to-date fiscal 2014 results show revenues ahead of budget by 5% due to strong ad-valorem receipts, and expenditures under budget by 6.75%, likely leading to another year of positive operating results. At this time the village does not have any plans to draw down reserves.

DEBT LEVELS ARE MODERATE

Overall debt levels are low at $2,705 on a per capita basis and 1.9% of market value, with a significant portion consisting of overlapping debt from the county. Fitch anticipates that direct debt levels will remain low as no near-term debt issuance is planned. Capital needs are modest, and the village intends to fund them on a pay-go basis. Debt amortization is below average with 32% of principal retiring within 10 years.

Post-employment benefit-related liabilities are modest. The village maintains a defined contribution plan for its employees under which it contributes 6% of employees' salaries and will match up to another 6%. Costs are modest, with the fiscal 2013 pension payment equal to about $263,000, or 1.6% of governmental expenditures. The village does not offer any OPEB except an implicit subsidy. Carrying costs are low at 11.2% of governmental spending and consist primarily of debt service.

Contact:

Primary Analyst
Leslie Ann Cook
Analyst
+1-212-908-0507

Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Larry Levitz
Director
+1-212-908-9174

Committee Chairperson
Amy Laskey
Managing Director
+1-212-908-0568

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 Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status

Melissa Dodge

From: Melissa Dodge
Sent: Friday, April 13, 2018 3:44 PM
To: 'Marsha Matson'
Cc: Missy Arocha
Subject: Public Records Request - 2018-105
Attachments: Notice of Material Event - Palmetto Bay 2010B February 2018.pdf; 2014 Fitch Ratings Published Press Release_Village of Palmetto Bay FL.pdf; Response - Full Report - Fitch - Palmetto Bay Village (FL) - Mar. 8 2017.pdf

Dear Ms. Matson:

Attached is the response to your recent public records request logged as 2018-105. If there are any questions, please contact the Office of the Village Clerk.

Sincerely,

Melissa Dodge
Administrative Assistant
Office of the Village Clerk
Village of Palmetto Bay
9705 East Hibiscus Street
Palmetto Bay, FL 33157
Ph: 305-259-1234
Fax: 305-259-1290

<u>NOTICE OF MATERIAL EVENT</u>

$14,780,000
Florida Municipal Loan Council
Revenue Bonds, Series 2010B
Village of Palmetto Bay

<u>Ratings Change</u>

On February 23, 2018, Standard and Poor's Global Ratings ("S&P") upgraded the rating assigned to the Florida Municipal Loan Council's Series 2010B revenue bonds issued on behalf of the Village of Palmetto Bay as obligor from "AA+" to "AAA". Further information on the significance of the rating upgrade may be obtained from S&P.

This Material Events Notice is dated February 27, 2018.

Palmetto Bay Village, Florida

Full Rating Report

Ratings

Long-Term Issuer Default Rating	AA+

Outstanding Debt

Florida Municipal Loan Council (FL) (Village of Palmetto Bay) Revenue Bonds	AA

Rating Outlook

Stable

Key Rating Drivers

Fitch Ratings' affirmation of Palmetto Bay's 'AA+' issuer default rating (IDR) and the 'AA' rating on the village's non-ad valorem revenue bonds reflects the application of Fitch's revised criteria for U.S. tax-supported bonds, published on April 18, 2016. The ratings reflect the village's solid revenue growth prospects and satisfactory independent revenue-raising flexibility, ample spending flexibility, and notably low long-term liability burden. The ratings are also supported by the village's exceptionally strong gap-closing ability, healthy fiscal reserves and positive operating performance history.

Key Rating Drivers

Economic Resource Base: Palmetto Bay Village, FL is a suburban community of approximately 25,000 residents located 15 miles south of the city of Miami. It is a coastal community located along Biscayne Bay in Miami-Dade County (IDR of 'AA'/Outlook Stable). The village is a young community, having been created in 2002 with strong voter approval. Palmetto Bay benefits from its location in the economically vibrant Miami-Fort Lauderdale-West Palm Beach metropolitan area, which offers diverse employment opportunities for residents. The tax base is composed mainly of low-density residences with a limited commercial presence. The local economy is oriented toward automotive dealerships, big-box retailers and office buildings. Resident wealth levels are above average compared to the state and U.S.

Revenue Framework: 'aa' factor assessment. Fitch expects revenue growth to be slow, in line with recent trends that have tracked the level of inflation. Growth prospects may improve in the future due to the significant volume of new construction planned in the village. A strengthening regional economy will also provide favorable tailwinds for local revenues. The village's independent legal ability to raise revenues is high. Florida's tax levy and millage rate caps are not particularly restrictive; the village also has the power to increase fees and service charges without limit.

Expenditure Framework: 'aa' factor assessment. The village's natural rate of expenditure growth is likely to stay in line with, or slightly above, the village's revenue growth rate in the absence of policy action to limit spending. Expenditure flexibility is ample as the village has no labor contracts and fixed costs are moderate.

Long-Term Liability Burden: 'aaa' factor assessment. The long-term liability burden is low relative to the village's economic resource base and consists almost entirely of direct and overlapping debt obligations and a small retiree healthcare subsidy. Fitch estimates the liabilities equal about 5% of resident income. The village does not have a defined benefit pension plan.

Operating Performance: 'aaa' factor assessment. Palmetto Bay's exceptionally strong gap-closing capacity is based on its superior budgetary flexibility and robust fiscal reserve position relative to the village's expected revenue volatility during an economic downturn. Fund balances in fiscal 2015 equaled almost a year's worth of operating revenues.

Analysts

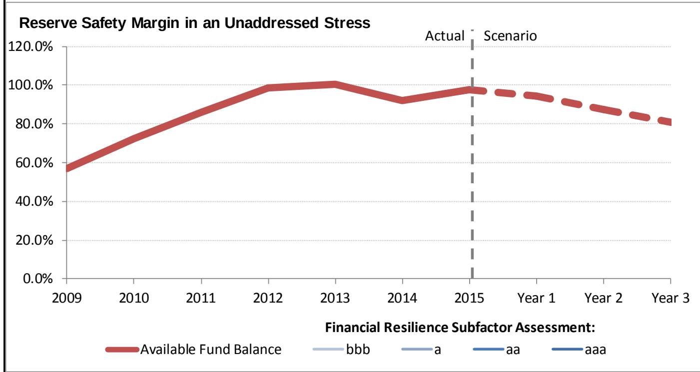
Michael D'Arcy
1 212 908 -662
michael.darcy@fitchratings.com

Shannon McCue
+1 212 908-0593
shannon.mccue@fitchratings.com

Palmetto Bay Village (FL)

Scenario Analysis

v. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:

Palmetto Bay's exceptionally strong gap-closing capacity is based on a combination of ample expenditure flexibility, high revenue-raising authority and a healthy reserve cushion. Although the village's historical revenue volatility is fairly high (5% from 2005 through 2015), Fitch expects management would be able to close the budget gaps caused by a moderate US downturn with a combination of spending reductions - including reduced transfers out of the general fund - and policy-driven revenue increases. Fiscal reserve levels are very substantial, equaling nearly 100% of expenditures in fiscal 2015. Fitch expects that Palmetto Bay will maintain a high degree of financial flexibility throughout economic cycles given its strong mix of reserves and policymaking powers.

The Fitch Analytical Sensitivity Tool (FAST) calculates historical annual revenue volatility of just over 5% for Palmetto Bay based on drops in revenue that occurred during the Great Recession. The FAST model generates a 5% revenue decline in year one of a US downturn characterized by a 1% decline in GDP. Under this scenario, general fund revenues would drop by 1.6% in year two before rising by nearly 2% in year three. In the absence of policy action, the FAST estimates reserves would still equal nearly 80% of spending in year three, providing solid budgetary flexibility.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(5.1%)	(1.6%)	1.9%
Inherent Budget Flexibility	[Analyst to Select]		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	15,349	15,300	14,860	13,496	13,705	13,970	14,276	13,547	13,330	13,584
% Change in Revenues	-	(0.3%)	(2.9%)	(9.2%)	1.5%	1.9%	2.2%	(5.1%)	(1.6%)	1.9%
Total Expenditures	12,317	11,798	12,973	11,867	12,115	12,558	13,368	13,635	13,908	14,186
% Change in Expenditures	-	(4.2%)	10.0%	(8.5%)	2.1%	3.7%	6.5%	2.0%	2.0%	2.0%
Transfers In and Other Sources	-	-	-	4	-	-	-	-	-	-
Transfers Out and Other Uses	1,193	1,564	200	679	897	1,480	121	123	126	128
Net Transfers	(1,193)	(1,564)	(200)	(675)	(897)	(1,480)	(121)	(123)	(126)	(128)
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	1,839	1,938	1,687	954	693	(68)	787	(212)	(704)	(731)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	13.6%	14.5%	12.8%	7.6%	5.3%	(0.5%)	5.8%	(1.5%)	(5.0%)	(5.1%)
Unrestricted/Unreserved Fund Balance (General Fund)	7,694	9,642	11,297	12,339	13,059	12,946	13,181	12,969	12,265	11,534
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	7,694	9,642	11,297	12,339	13,059	12,946	13,181	12,969	12,265	11,534
Combined Available Fund Bal. (% of Expend. and Transfers Out)	57.0%	72.2%	85.8%	98.4%	100.4%	92.2%	97.7%	94.3%	87.4%	80.6%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	81.7%	40.8%	25.5%	15.3%	10.2%
Reserve Safety Margin (aa)	61.3%	30.6%	20.4%	12.8%	7.7%
Reserve Safety Margin (a)	40.8%	20.4%	12.8%	7.7%	5.1%
Reserve Safety Margin (bbb)	15.3%	10.2%	7.7%	5.1%	2.6%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA+	Affirmed	Stable	3/1/17
AA+	Assigned	Stable	6/2/14

Related Research
Fitch Affirms Florida Muni Loan Council's Rev Bonds (Palmetto Bay) at 'AA'; Outlook Stable (March 2017)

Related Criteria
U.S. Tax-Supported Rating Criteria (April 2016)

Rating Sensitivities

Revenue Growth Prospects: An increase in economic activity leading to materially faster revenue growth could create positive rating pressure.

Credit Profile

Palmetto Bay is an affluent suburb of Miami located approximately 15 miles south of the city along the Atlantic coastline. It is an incorporated village with a mayor-council style of government. Taxable assessed values (AV) were significantly impacted by the most recent recession, falling by 20% between 2008 and 2012. Since 2012, taxable AV has stabilized in the $2.4 billion range. TAV increased by approximately 2.5% in 2015, the most recent year of record. Residential property TAV surpassed its pre-recession level in 2014, but commercial TAV remains roughly 55% of its pre-2010 level. Village officials expect AV to remain relatively flat in the near term; however, major new development in and around the village's downtown area could result in significant increases to TAV in the future, as nearly $500 million of projects by four developers are moving into their construction phases.

The fiscal 2017 tax rate of 2.329 mills is low for Florida and far below the 10-mill cap set by the state. The 2017 millage rate represents a reduction from the 2.447 mills rate in place from fiscal years 2009–2016. Village income levels are well above state and U.S. averages. County unemployment rates are slightly above the state and U.S. rates.

Revenue Framework

Property taxes provide about 40% of the village's general fund operating revenues. Other local taxes that include utility, franchise and communications service taxes account for another 31%. Intergovernmental revenues accounted for 16% of operating revenues in fiscal 2015. The general fund is the largest operating fund. It receives roughly two-thirds of the village's governmental fund revenues.

Fitch expects the village's revenues to expand in line with the rate of inflation, but well below the rate of U.S. GDP growth, given the delayed impact of new development on taxable AV and the property tax levy. Intergovernmental revenues are likely to rise more slowly than U.S. GDP, and some local taxes (e.g. the communications services tax) are actually posting modest declines. Fitch anticipates that fee and permit revenue growth will offset declines in other local revenues to some extent. Miami-Dade County's diverse economy is likely to support slow-to-moderate revenue growth at the village level.

The village's independent legal ability to raise tax and fee revenues without approval from voters or higher levels of government is high compared to the likely revenue volatility in a modest U.S. economic downturn scenario. The ability to raise the millage rate is presently significant, as 2017's millage rate of 2.329 mills is well below the state's 10-mills limit for local governments. Local officials' power to raise fees and service charges is virtually unlimited, but these revenue sources account for a small part of the village budget. Fitch believes the village's revenue-raising ability would allow it to counter balance a cyclical revenue decline using revenue-raising measures alone.

Expenditure Framework

Public safety spending accounts for the largest percentage (52%) of general fund spending followed by general government at 23% and parks and recreation at 15% of spending.

In the absence of specific actions, Fitch anticipates the village's spending will grow in line with natural revenue growth. The village budgeted for lower expenditures in fiscal 2017 than in fiscal 2016 and could decide to cut spending again in future. Fitch expects that management would lower the millage rate (as it did in 2017) and/or its fee and service charge rates to keep revenues in line with expenditures and reduce the taxpayer burden.

Fitch views Palmetto Bay as having ample expenditure flexibility due to its moderate carrying costs and non-union workforce. The village also transfers a substantial amount of fund balances out of its general fund in most fiscal years to fund capital upkeep paid for out of its capital projects fund. The amounts transferred fluctuate annually, but range between roughly 5% and 10% of general fund expenditures in any given year. In fiscal 2013, the village transferred out nearly $900,000 in cash equal to 7.5% of expenditures; in fiscal 2014, the amount transferred out was nearly $1.5 million, equal to 12% of expenditures. Management has a free hand to pull back on transfers out to fund capital, allowing it to retain or build up general fund balances as needed by deferring capital spending.

Fixed carrying costs related to debt service, contributions to the village's defined contribution pension plan, and pay-go payments to support other post-employment benefits (OPEB) amounted to 11% of governmental expenditures in 2015. Carrying costs have averaged approximately 11% of spending in recent years, which Fitch views as moderate. The village is not a party to any labor contracts with its work force, as none of its 50 full-time employees belongs to any form of organized collective bargaining unit. As a result, management has a broad degree of discretion in determining work place rules, controlling head count and setting employee compensation and benefit levels. This level of flexibility served the village well during the recent downturn and Fitch believes would assist the village in adjusting expenditure levels to better match revenue performance in future downcycles.

Long-Term Liability Burden

Palmetto Bay's long-term liability burden is low measured against the size of the village's economic resource base. Fitch estimates the village's long-term liability burden at approximately 5% of resident personal income as of 2015. Liabilities are composed almost entirely of direct and overlapping debt obligations, as the village does not participate in a defined benefit pension plan, and therefore has not incurred any long-term employee pension liabilities. The village funds its share of the defined contribution plan set up for its employees, making the plan a form of annual expense with no associated long-term pension liability. Palmetto Bay has roughly $18 million of direct debt outstanding, along with $69 million representing the village's share of overlapping debt obligations issued by the county and local school district. Amortization of direct debt is slow, with 41% of principal maturing within the next ten years. The village does not have near-term debt issuance plans.

Operating Performance

Palmetto Bay's exceptionally strong gap-closing capacity is based on its combination of ample expenditure flexibility, high revenue-raising authority and healthy reserve cushion. For details, see Scenario Analysis, page 2.

Budget management at times of economic recovery has been strong. Management has focused on increasing the village's fiscal reserve cushion while continuing to fund capital improvements in the village with a mixture of cash and debt. In addition to maintaining a high level of pay-go capital spending, the village has continued to make all required contributions to fund its share of the defined contribution pension plan for employees and kept up with pay-go funding of annual OPEB costs. The village has generated general fund operating surpluses in six out of the last seven fiscal years through a combination of conservative budgeting and spending restraint. Local officials estimate that fiscal 2016 ended with a $700,000 general fund surplus net of nearly $3 million in transfers out to the capital projects fund.

Available fund balances in the general fund totaled $13.2 million at fiscal year-end 2015, equal to 98% of expenditures. In addition to unrestricted general fund balance, the village keeps substantial unrestricted reserves in its capital projects fund. Capital project reserves totaled nearly $2 million at fiscal year-end 2015, providing the village with a supplemental fiscal cushion in the event general fund reserves should come under pressure. Fund balances in the capital projects fund are fungible with the general fund.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.