Tagging Info

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

Ratings Endorsement Policy
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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.

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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).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

**Additional Disclosure**
Solicitation Status