

Tax Supported
New Issue

Miami, Florida

Ratings**New Issues**

Special Obligation Parking Revenue Bonds, Series 2010A	A-
Special Obligation Parking Revenue Bonds (Taxable), Series 2010B	A-

Outstanding Debt

General Obligation Bonds ^a	A
Limited Ad Valorem Bonds ^b	A-
Special Obligation Bonds	A

^aDowngraded from 'AA-' on July 2, 2010.

^bDowngraded from 'A+' on July 2, 2010.

Rating Outlook

Negative

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New Issue Details

Sale Information: \$87,560,000 Special Obligation Parking Revenue Bonds, Series 2010A, and \$17,445,000 Special Obligation Parking Revenue Bonds (Taxable), Series 2010B, scheduled to price on or after July 21 via negotiation.

Security: A lien upon and pledge of the city's portion of the county-levied community development tax, a 3% occupancy tax, as well as parking revenues as detailed in the parking agreement between the city and the Marlins stadium operator, and 80% of the city's 15% parking surcharge in the stadium parking facilities. If the above revenues are insufficient to pay debt service, the city has covenanted to budget and appropriate and deposit into the revenue fund, in sufficient amounts, non-ad valorem revenues lawfully available for such purpose.

Purpose: To construct parking facilities, including surface lots and parking structures, for approximately 6,000 parking spaces located at the site of the Florida Marlins baseball stadium.
Final Maturity: 2039.

Rating Rationale

- The GO rating downgrade to 'A' from 'AA-' reflects substantially weakened financial flexibility and Fitch Ratings' expectation that structural budgetary pressures will persist.
- The Negative Rating Outlook reflects Miami's projected fiscal deficits over the next several years, which, absent far-reaching expenditure reductions and governmental restructuring, will deplete city reserves.
- The 'A-' rating on the special obligation parking revenue bonds is based on the city's covenant to budget and appropriate available non-ad valorem revenue (including franchise fees, communications services tax [CST], public service tax [PST], and intergovernmental and other revenues comprising more than 50% of total general fund revenues in fiscal 2009) in the event of a shortfall in pledged revenues.
- City financial results have been volatile and characterized by operating deficits in recent years. Miami is continually challenged to manage expenditure growth in a flat or declining revenue environment.
- Pension costs have risen dramatically, comprising 25% of general fund revenues in fiscal 2010.
- Although the economic base has weakened, particularly as it relates to joblessness and the housing market, it remains diverse, and the city serves an important role as a key U.S. import and export base for Latin American and Caribbean goods and services.
- The city's debt profile is manageable, and capital improvement plans (CIPs) have been reduced in recent years to address a slowdown in development and reduced resource availability.
- For the streets and sidewalks revenue bonds, coverage of debt service by pledged revenues remains sound, despite recent declines.

What Could Trigger a Downgrade?

- Inability to develop sufficient expenditure or revenue solutions to make significant progress in fiscal 2011 in addressing the large structural budget imbalance.
- Significant decline in reserves from the low level expected at fiscal year-end 2010.

Credit Summary

Miami's financial performance has been volatile historically and remains severely pressured. Over the past several years, the city's fixed operating costs grew rapidly, particularly for public safety, and the rate of expenditure growth to support increasing pension obligations was staggering. Pension costs are projected to compose 25% of general fund revenues in fiscal 2011. General fund performance was notably weaker than previously expected in fiscal 2009; the vast majority of the larger than anticipated deficit was the result of a transfer of \$28 million from the general fund back to the capital projects fund to replenish the prior year's transfer to support general fund operations. The total fund balance at the close of fiscal 2009 totaled \$40 million, of which \$24 million was unreserved, equal to 4.3% of spending. Recent projections show that the city will end fiscal 2010 with a \$20 million reduction in general fund reserves, which leaves little financial cushion to the cash-

Related Research

Applicable Criteria

- *Tax-Supported Rating Criteria, Dec. 21, 2009*
- *U.S. Local Government Tax-Supported Rating Criteria, Dec. 21, 2009*

Rating History — GO Bonds

Rating	Action	Outlook/ Watch	Date
A	Downgraded	Negative	7/2/10
AA-	Revised ^a	Negative	4/30/10
A	Affirmed	Negative	10/30/09
A	Affirmed	Stable	5/8/09
A	Affirmed	Stable	11/1/07
A	Upgraded	Stable	6/15/07
A-	Upgraded	Positive	2/20/04
BBB+	Affirmed	Positive	10/28/03
BBB+	Assigned	Stable	3/8/02

^aReflects recalibration.

Rating History — Special Obligation Parking Revenue Bonds

Rating	Action	Outlook/ Watch	Date
A-	Assigned	Negative	7/2/10

Rating History — Limited Ad Valorem

Rating	Action	Outlook/ Watch	Date
A+	Revised ^a	Negative	4/30/10
A-	Affirmed	Negative	10/30/09
A-	Affirmed	Stable	5/8/09
A-	Upgraded	Stable	6/15/07
BBB+	Upgraded	Positive	2/20/04
BBB	Affirmed	Positive	10/28/03
BBB	Assigned	—	7/11/02

^aReflects recalibration.

Rating History — Streets and Sidewalks Revenue Bonds

Rating	Action	Outlook/ Watch	Date
A	Affirmed	Negative	7/2/10
A	Revised ^a	Stable	4/30/10
A-	Affirmed	Stable	10/30/09
A-	Affirmed	Stable	5/8/09
A-	Assigned	Stable	11/1/07

^aReflects recalibration.

strapped city. Factors contributing to the shortfall in fiscal 2010 include property tax collections performing below budget (collections were at 90%, compared with the budgeted rate of 95%); shortfalls in licenses and permits and charges for services, the result of construction project slowdowns; a one-time litigation payout (\$3.4 million); and higher than anticipated medical claim payments related to workers' compensation.

The city is facing tremendous fiscal challenges as it prepares its fiscal 2011 budget, and the five-year forecast is grim, yielding increasing operating deficits annually, which quickly deplete city resources. For fiscal 2011, general fund revenues are expected to be down 9%, the result almost exclusively of a 15% taxable assessed valuation (TAV) decline with no offsetting millage increase. Most other revenues are expected to be unchanged from fiscal 2010, which may be optimistic given declines in recent years. Expenditures are projected to rise 7%, with pension and salary obligations producing the most substantial increases. City administration has proposed far-reaching benefit changes, including the shift from a defined benefit to a defined contribution retirement program, to plug much of the anticipated fiscal 2011 \$100 million operating deficit and fundamentally alter the structure of its operating budget.

Negotiations are ongoing with all bargaining units. The city declared financial urgency, pursuant to Florida State Statute 447.4095, to open negotiations with the fire union prematurely. The fire union reached an impasse, and a special magistrate has been assigned. The city expects other unions to reach an impasse as well. The city commission will ultimately have the authority to impose contracts on any unit that reaches an impasse, although the political will to impose far-reaching changes to the compensation structure is uncertain. City officials have proposed a backup plan in the event negotiations are stalled or results are insufficient to cut costs, which includes massive layoffs in all city departments, including police and fire. Fitch believes it unlikely that the city will be able to accomplish its objective of reducing operating expenditures in fiscal 2011 by more than \$80 million, almost exclusively with salary cuts, changes to its healthcare benefits, and dramatic changes to its pension plans, but expects that it will achieve some concessions to reduce the current budgetary gap.

The city's TAV more than doubled between fiscal years 2004 and 2008, increasing at an annual average rate of 19%. The construction boom that drove tax base growth over the past six years slowed substantially in fiscal 2009, and taxable values retracted 6% and 16% in fiscal years 2010 and 2011 (on a preliminary basis for fiscal 2011), respectively. Fitch expects that the relatively manageable decline in fiscal 2011 may be followed by more severe declines as sharply lower real estate values are incorporated into the tax rolls. Housing data obtained by Fitch suggest that the city's residential real estate market is heavily exposed to nontraditional mortgage products and that the foreclosure problem is severe and worsening. Foreclosure activity in Miami is nearly three times the national average for the most recent quarter. Property taxes are providing 50% of budgeted general fund revenue in fiscal 2010.

The area economy is diverse, with a large international component. The presence of healthcare, higher education, and professional and business services balances the tourism component of the city's economy. Sector employment statistics are well balanced among education and healthcare, professional and business services, leisure, trade/transportation, and government, although all but education and healthcare retracted between 2005 and 2009. Employment in the construction sector retracted nearly 5% between 2005 and 2009, evidence of the weakened construction environment that is additionally evident in the real estate sector. Employment and labor trends were positive annually through 2007 and retracted slightly in 2008. However, recent monthly statistics indicate expansion in each at 1.4% and 2.8%, respectively, the latter contributing to the increased unemployment rate from April 2009 to April 2010. City

unemployment rates have historically been higher than those of the state and nation. Direct debt levels are moderately low and should remain so as the city finances the \$573 million portion of the CIP for which funding has been identified; the overall plan totals \$1.1 billion, notably lower than the previous CIP. Overall debt levels are above average. Plans for tax-supported debt in the near term are limited to bonds secured by tax increment revenues.

For repayment of the special obligation parking revenue bonds, Miami-Dade County agreed to provide the city with a portion of its CDT revenues through fiscal 2039, subordinate to prior county commitments, for the purpose of funding the parking facility. Debt service on these bonds is ascending and relies on growth in the CDT, which Fitch believes is likely over the long term. Maximum annual debt service on the bonds of \$12 million that occurs in fiscal 2038 would utilize a relatively small 2.4% of fiscal 2010 projected general fund revenue. Non-ad valorem revenues, which include franchise fees, CST, PST, and intergovernmental revenues, comprised more than 50% of total general fund revenues in fiscal 2009.

Debt Statistics

(\$000)

This Issue	105,005
Outstanding Debt	616,224
Direct Debt	721,229
Overlapping Debt	1,102,062
Total Overall Debt	1,823,291
Debt Ratios	
Direct Debt per Capita (\$) ^a	1,745
As % of Market Value ^b	2.3
Overall Debt per Capita (\$) ^a	4,413
As % of Market Value ^b	5.8

^aPopulation: 413,201 (2009 estimate). ^bMarket value: \$31,381,000,000 (fiscal 2011). Note: Numbers may not add due to rounding.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended Sept. 30)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Property Tax Revenue	214,329	258,757	258,294	266,860
Other Tax Revenue	41,342	42,257	35,319	36,228
Total Tax Revenue	255,671	301,014	293,613	303,088
Licenses and Permits	28,469	32,830	29,789	26,032
Fines and Forfeits	5,175	5,284	6,032	6,396
Charges for Services	91,981	77,174	74,998	76,508
Intergovernmental Revenue	53,267	54,097	51,321	47,234
Other Revenue	16,707	19,697	16,681	12,262
General Fund Revenue	451,270	490,096	472,434	471,520
General Government	38,809	61,209	57,525	56,699
Public Safety Expenditures	187,938	249,795	249,882	249,478
Public Works Expenditures	50,574	56,377	54,859	54,939
Culture and Recreation Expenditures	15,112	20,202	24,277	28,301
Other Expenditures	159,574	142,180	138,702	137,176
General Fund Expenditures	452,007	529,763	525,245	526,593
General Fund Surplus/(Deficit)	(737)	(39,667)	(52,811)	(55,073)
Transfers In and Other Sources	52,097	62,913	76,818	47,785
Transfers Out and Other Uses	42,209	49,052	30,880	46,319
Net Transfers and Other Sources/(Uses)	9,888	13,861	45,938	1,466
Total Fund Balance	126,256	100,450	93,577	39,973
As % of Expenditures, Transfers Out, and Other Uses	25.5	17.4	16.8	7.0
Unreserved Fund Balance	125,362	96,681	88,961	24,852
As % of Expenditures, Transfers Out, and Other Uses	25.4	16.7	16.0	4.3

Note: Numbers may not add due to rounding.

Bond proceeds will be used to construct parking facilities, including surface lots and parking structures, for approximately 6,000 parking spaces located at the site of the Florida Marlins baseball stadium. The construction agreement provides for a fixed construction budget of \$84.5 million, inclusive of a contingency. The Miami Parking Authority will operate, manage, and control the project, in accordance with the city parking agreement.

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