FitchRatings

Fitch Affirms Various Sebastian, FL Ratings; Upgrades Stormwater Revs

Ratings Endorsement Policy

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Fitch Ratings-New York-09 August 2013: Fitch Ratings has affirmed the following ratings on Sebastian, Florida (the city):

--Implied unlimited tax general obligation (ULTGO) at 'AA';
--$4,600,000 infrastructure sales surtax revenue bonds, series 2003 and 2003A at 'AA-'.

In addition, Fitch has upgraded the rating on $3,215,000 of outstanding stormwater utility revenue bonds, series 2003 to 'AA' from 'AA-'.

The Rating Outlook is Stable.

SECURITY

The infrastructure sales surtax bonds are secured by the city's share of a one-cent local option infrastructure sales tax levied in Indian River County distributed between the county, school district and incorporated municipalities based on a population driven formula.

The stormwater utility revenue bonds are secured by a pledge of gross storm water assessment fee revenue levied on each equivalent residential unit (ERU) within the city limits without limitation, subject to a 1.35x rate covenant for debt service.

KEY RATING DRIVERS

STORMWATER REVENUES STABLE: The 'AA' rating on the stormwater bonds reflects solid coverage of maximum annual debt service (MADS) from pledged revenue, revenue autonomy evidenced in the city's recent increase of the stormwater fee, and strong collection mechanism as stormwater assessments constitute a first lien on property on parity with all municipal ad valorem taxes.

SOLID SALES TAX COVERAGE: The 'AA-' rating on the sales tax bonds is based on the solid coverage of MADS from pledged revenue minimizing risk to severe stress scenarios and no expectation for additional parity debt.

SOUND OVERALL FINANCIAL POSITION: Reserve levels remain robust despite a recent string of minor deficits. Budgetary balance appears to have been restored but expenditure cuts have been significant and could pose a budgetary challenge should revenue growth remain tepid. Operating revenues are diverse and tax rates are low.

LOW DEBT: Debt metrics are favorable, and outstanding principal is rapidly repaid. Long-term liabilities for pension and other post-employment benefits (OPEB) are manageable.

AREA ECONOMY LIMITATIONS: The area economy lacks diversity and its dependence on tourism, retirees and seasonal residents, citrus production, construction, and retail expose it to a high degree of volatility evidenced in outsized loss of jobs during the recession and lingering high unemployment.

RATING SENSITIVITIES

CHANGE IN COVERAGE: The sales tax revenue bonds are sensitive to changes in pledged revenue coverage resulting from revenue performance and/or leveraging. Further, the rating on the sales tax and stormwater revenue bonds is capped by the city's implied ULTGO rating.

CHANGE IN FINANCES, DEBT: The city's credit strengths center on its low debt and strong reserves - a meaningful change in these factors would likely pressure the rating.

CREDIT PROFILE

Sebastian is a predominantly residential community covering an area of 14.6 square miles in northern Indian River County along the Atlantic coast. The city has a 2012 population of 22,364 up from 16,181 in 2000.

SOLID COVERAGE ON SALES TAX BONDS

Sales tax collections continue to experience moderate growth improving 1.3% and 4.5% in fiscal 2011 and 2012, respectively.

Through the first seven months of fiscal 2013 revenues are up
4.6% over the prior year. Fiscal 2012 revenues of $2.46 million cover MADS of $1.03 million a solid 2.39x. Revenues can decline by close to 60% before coverage reaches 1.0x MADS - in comparison revenues fell 14.6% in aggregate from fiscal years 2006-2010.

The additional bonds test (ABT) requires only 1.35x MADS coverage however further leveraging is not anticipated and would be impractical due to the short lifespan of the tax, which expires on Dec. 31, 2019 (the bonds mature April 1, 2018).

STABLE STORMWATER REVS & SOLID COVERAGE SUPPORT RATING

Approximately 82% of stormwater revenues are derived from residential customers, with the 10 largest accounting for a moderate 10% of annual revenue. The stormwater fee constitutes a lien on property equal to all municipal ad valorem taxes, superior to all other liens. As stormwater revenues are based on an equivalent residential unit or ERU they are not subject to fluctuation in taxable assessed valuation (TAV). Stormwater revenues are included on the property tax bill and enforced through a timely tax lien sale and ultimately the disposition of property which minimizes risk to non-payment.

Fiscal 2012 revenues totaled $813,003 or 1.84x MADS of $441,448. City council unanimously adopted an increase in the stormwater fee to $5 per month per ERU from $4 effective fiscal 2013 to maintain service levels and equipment replacement. Revenues are projected to increase to $983,745 for the year boosting MADS coverage to 2.23x. The city has covenanted to impose a stormwater assessment sufficient to provide at least 1.35x coverage of annual debt service. Stormwater assessments may be imposed by city council resolution without limitation. The city does not plan to issue additional debt but fund various stormwater projects from current revenue.

GENERAL FUND RESERVES REMAIN VERY HIGH

Audited results for fiscal 2012 were slightly worse than budget with a modest $100,286 general fund operating deficit (after transfers), the equivalent of 1% of operating expenditures and transfers out. General fund deficits have been incurred consecutively since fiscal 2007 resulting in a fund balance reduction of $1.48 million or 22.8%.

The deficits are concerning but somewhat tempered by a 19% reduction in spending from fiscal years 2009-2012 and continued maintenance of very high reserves. The unrestricted fund balance in fiscal 2012 of $4.6 million represents 47.3% of spending. The city recently strengthened its fund balance policy, requiring a prudent 30% of spending to be set aside for emergencies or unanticipated revenue shortfall.

Furthermore the fiscal 2013 budget was balanced without appropriation of fund balance, and management reports that projected revenues and expenditures are tracking very close to budget and that a slight surplus is anticipated at year end (Sept. 30).

2014 BUDGET DEVELOPING; NO CHANGE IN FINANCIAL POSITION EXPECTED

The proposed general fund budget for fiscal 2014 increases operating expenditures by 1.1% to $9.8 million, and builds reserves by $212,210. Operating resources are fairly diverse led by property taxes (29%), utility service taxes (25%), state shared revenues (20%), and franchise fees (11%).

The property tax rate of 3.7 mills is considered very low by Fitch and is well within the statutory 10 mill cap. The tax rate is unchanged after a 12.5% increase in fiscal 2013 to help stabilize revenues. Property tax receipts are down about $1.7 million since fiscal 2008 due to a severe 54% contraction in taxable assessed value (TAV). The housing market appears to have turned a corner however, as fiscal 2014 TAV improved a very modest 0.5% and June median single-family home prices are up 8%-18% year-over-year according to Zillow and Trulia.

VERY LOW DEBT BURDEN AND RAPID AMORTIZATION

The city's overall debt burden, including an estimate of overlapping county and school debt, is very low at 1.4% of market value and $970 per capita. Outstanding direct debt is fully repaid within only 10 years and there are no major capital needs or plans to issue additional debt. Another positive factor is that the city's single-employer pension plan remains satisfactorily funded, and carrying charges for debt, pension, and OPEB are manageable.

ECONOMIC METRICS REMAIN SOMEWHAT STRAINED

The area economy is generally limited in Fitch's view. The largest private sector employers include Publix, Wal-Mart, Piper Aircraft, and John's Island (country club). Wealth levels for the city have declined in recent years and remain moderately below the state average by all measures. Employment statistics are not available for the city given its population size. County employment growth has slowed to 0.5% year-over-year in April following annual gains of 2.2% in 2011 and 2.3% in 2012. The unemployment rate remains elevated at 8.1% compared to 6.8% for Florida and the national rate of 7.1%.

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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.

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