FitchRatings

Fitch Affirms Sunrise, FL's GO Bonds at 'AA'; Outlook Stable

Fitch Ratings-New York-15 March 2017: Fitch Ratings has affirmed the following ratings for the city of Sunrise, Florida:

--$37.6 million general obligation (GO) bonds, series 2015 at 'AA';
-- Issuer Default Rating (IDR) at 'AA'.

The Rating Outlook is Stable.

SECURITY
The bonds are general obligations of the city payable from ad valorem taxes levied without limitation as to rate or amount upon all taxable property within its corporate limits.

KEY RATING DRIVERS

The 'AA' IDR and GO rating reflects the city's strong revenue framework and solid expenditure flexibility, strong operating performance, and modest long-term liability burden.

Economic Resource Base
The city encompasses 18 square miles located in southeastern Florida in Broward County ('AAA' IDR), approximately six miles west of Fort Lauderdale. City residents total an estimated 92,700, up about 10% from 2000.

Revenue Framework: 'aaa' factor assessment
The city's revenues are expected to continue their strong trajectory, with growth in line with to above the rate of national GDP growth. The city has significant legal ability to increase revenues relative to potential declines in a moderate economic downturn.

Expenditure Framework: 'aa' factor assessment
Fitch expects the natural pace of spending growth to generally track revenue

growth. Moderately elevated carrying costs, largely attributable to pension funding, are partially offset by the discretion to manage labor-related costs.

Long-Term Liability Burden: 'aa' factor assessment
The long-term liability is at the low end of the moderate range as a percent of income, despite a low funded ratio for the city's pension plans.

Operating Performance: 'aaa' factor assessment
The city retains an exceptional capacity to manage risks associated with a normal economic cycle given the combination of its substantial reserves, prudent budgetary management, and legal revenue-raising capacity.

RATING SENSITIVITIES
Long-Term Liability Containment: The city's ability to manage its long-term liability obligations that results in a relatively stable burden could positively affect the rating.

CREDIT PROFILE

The city is favorably situated in the tri-county region of Broward, Palm Beach and Miami-Dade, resulting in a diverse economic base consisting of a sizable corporate presence due to four major industrial parks, financial services, research and development and a robust tourist sector. Tourism is driven in large part by the Sawgrass Mills Mall (the mall) and the BB&T Center (home of the National Hockey League Florida Panthers). The mall is the largest outlet mall in the U.S. and Florida's second largest tourist attraction next to Disney World. Numerous corporations are located within the city including leading employers Coventry Healthcare of Florida, United Healthcare, Mednax and Sheridan Health.

Taxable assessed value (TAV) has grown steadily over the past five years, but remains below the pre-recession peak. However, the local economy is experiencing substantial development activity; projects including significant residential, hotel, retail and commercial development will result in continued tax base expansion as the projects come online.

City wealth levels are generally below state and national averages; however, the individual poverty rate is low relative to regional and national rates, and unemployment rates are typically below state and national averages.

Revenue Framework

The city enjoys a relatively diverse revenue environment. Property taxes account for about 29% of general fund revenues while charges for services account for about 20%. Special assessments and utility taxes were equivalent to 9% and 8% of fiscal 2016 unaudited general fund revenues, respectively.

Fitch views the city's revenue growth prospects as strong. The rolling 10-year revenue CAGR for general fund revenues comfortably exceeded U.S. GDP performance for fiscal years 2014 and 2015, with minimal millage rate adjustments during that period. The strength of the surrounding economy, significant development projects within the city and expectations for good population growth support Fitch's expectations for revenue appreciation over the long term.

The city has strong revenue-raising capacity despite being subject to a non-voted property tax cap of 10 mills. The city adopted a tax rate of 6.0543 mills for fiscal 2017. Fitch estimates an increase to the 10-mill maximum rate would generate roughly $20 million in additional revenue. Annual changes in the property tax rate are determined using a roll-back or revenue-neutral rate, which is then adjusted for changes in the Florida per capita personal income. However, this limitation may be overridden by a vote of the city's governing body. The city 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

Public safety is by far the city's largest expenditure, equal to nearly two-thirds of spending. General government expenses equal a little more than one-fifth of general fund spending.

Fitch expects the pace of spending to generally match or slightly exceed revenue growth in order to meet the needs of an expanding population, absent policy action.

Employee wages and benefits are the main expenditure driver. Wages and benefits are collectively bargained. City employees are largely represented by five unions; all but one union have settled contracts which generally have three-year terms. Under Florida law, a bargaining impasse is ultimately resolved by action of the governing body of the local government following the conclusion of a non-binding mediation process, limiting the risk of onerous decisions by a third-party arbiter.
Fixed carrying costs associated with debt, pension benefits and other post-employment contributions equaled about 20% of spending in fiscal 2015 and mainly reflect the city's pension funding burden (17% of spending). Recently enacted reform to pension benefits should help to stabilize the city's pension costs.

Long-Term Liability Burden

The city's long-term liability burden is at the low end of the moderate range at about 10% of personal income and is expected to remain comfortably below the 20% benchmark consistent with a 'aa' assessment. The city's direct debt of about $54 million comprises less than 2% of personal income. The city's fiscal 2017 five-year capital improvement program includes about $106 million in future debt issuance mainly pertaining to new parks and the redevelopment of the municipal campus, including the construction of a new city hall, estimated to cost about $62 million. Funding for the municipal campus will be derived from an estimated $46 million in debt with the balance expected to be paid from the city's capital improvement fund.

The city provides three separate defined benefit pension plans: general employees, police, and fire. The plans have a Fitch-adjusted estimated aggregate funding level of 64% and an adjusted unfunded actuarial accrued liability of $214 million, based on a 7% discount rate estimate. The city historically pays 100% of the actuarially required contribution in each year.

In order to address its growing pension liabilities, the city has actively sought and successfully enacted pension reforms to its police officers' retirement plan. The city eliminated the cost-of-living adjustment, lowered the multiplier, established a later retirement date, and created a second-tier plan for new employees, to name a few. This is the last of the city's three pension plans to add a second tier for new employees. Fitch expects that these measures will help stabilize future retiree benefit costs.

Operating Performance
In Fitch's opinion the city is exceptionally well positioned to address the fiscal challenges associated with the typical economic downturn. Among the budgetary tools available to the city to offset any revenue stress is a very high unrestricted fund balance. Fitch believes the city could tap a good portion of this fund balance as well as lean on its strong revenue-raising capacity and expenditure flexibility to offset temporary revenue pressures without jeopardizing its fundamental financial flexibility.

The city has consistently maintained a very strong financial operating profile with unrestricted general fund reserves generally held around or above 30% of spending since fiscal 2009. The high reserves are well above Fitch's modeled reserve safety margin for municipalities with moderate revenue volatility and superior inherent budget flexibility, and remain compliant with the city's policy of fund balance not less than 15% of operating expenditures for contingencies and 5% as a stabilization reserve.

Unaudited results for fiscal 2016 show a $4.1 million increase in the general fund balance (approximately 4% of spending), primarily because expenditures tracked favorably to budget. The estimated ending unrestricted fund balance of approximately $67 million is projected to equal roughly 58% of total general fund expenditures and transfers out. The $121.7 million adopted fiscal 2017 general fund budget is a 1.5% increase over the prior year, and is balanced without the use of reserves.

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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)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1020582&cft=0)
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