



## Fitch Affirms South Florida Water Management District's COPs and IDR; Outlook Stable

Fitch Ratings-New York-16 March 2017: Fitch Ratings has affirmed the following South Florida Water Management District (SFWMD) ratings:

--\$385,425,000 refunding certificates of participation (COPs), series 2015 at 'AA-'.

Fitch has also assigned an Issuer Default Rating (IDR) of 'AA' to the district.

The Rating Outlook is Stable.

### SECURITY

The COPs are backed by lease rental payments made by the district subject to annual appropriation. The lease rental payments are payable from all legally available resources of the district.

### KEY RATING DRIVERS

The affirmation of SFWMD's COPs and IDR reflects the district's very low debt and pension liabilities, solid reserves and ample available expenditure options to address fiscal challenges associated with a moderate economic downturn. Fitch's assessment of the district's revenue framework is constrained by the lack of independent revenue raising authority given state law provisions governing the review and approval of the district's budget. The COPs rating of 'AA-' is one notch below the IDR of the district, reflecting a slightly higher degree of optionality associated with appropriation payments compared to the IDR.

### Economic Resource Base

SFWMD is the largest of five regional water districts created by the state in 1972 to provide regional flood control, water supply and water quality protection, ecosystem restoration, and to operate and maintain Lake

Okeechobee and the Everglades. The district serves all or parts of 16 south and central Florida counties including Broward, Miami-Dade, Orange and Palm Beach. The district's service territory has an estimated population of 8.1 million residents and a tax base value in fiscal 2017 that exceeds \$870 billion.

#### Revenue Framework: 'bbb' factor assessment

SFWMD's 'bbb' revenue framework largely reflects the absence of independent revenue raising authority as the budget of all water management districts in the state are subject to the prior review and approval of the governor. The state legislature also has the authority to enact legislation that limits the maximum amount of property tax revenue to be raised in a given year.

#### Expenditure Framework: 'aaa' factor assessment

Fitch believes the district has ample expenditure flexibility to counteract cyclical revenue pressures. The district has limited exposure to employee-related spending pressures and low debt and pension requirements. A significant portion of the district's operating budget is related to capital investments and other spending that could be deferred if needed.

#### Long-Term Liability Burden: 'aaa' factor assessment

SFWMD's overall debt and net pension liability is extremely low relative to the combined personal income of its 16-county service area. The district has been a very infrequent issuer of debt and does not expect additional issuance in the future. Its ability to advance major capital projects is largely dependent on the availability of state funding.

#### Operating Performance: 'a' factor assessment

The district's financial resilience is strong, but a higher assessment is precluded by the combination of its volatile revenue and tax base and budgetary constraints imposed by state law. The district's emergency reserve target provides a cushion against cyclical revenue risk complementing management's proven ability to realign spending in response to revenue declines.

#### RATING SENSITIVITIES

Restoration of Revenue Flexibility: Restoration of the district's capacity to

independently increase revenues within statutory restrictions would be viewed as a positive rating factor.

Reserve Cushion Diminishment: A reduction in the level of unrestricted resources below the district's emergency reserve target could lead to negative pressure on the ratings.

## CREDIT PROFILE

The South Florida Water Management District is a component unit of the state of Florida. The district is the oldest and largest of the state's five water management districts covering roughly one-third of the state's land area extending from central Florida south to the Florida Keys. The district is governed by a nine-member board appointed by the governor.

### Revenue Framework

SFWMD's primary operating funds are the general fund and the Okeechobee Basin fund. The Okeechobee Basin is one of two subdistricts or basins and covers all or part of a 15-county area. Ad valorem taxes account for approximately 90% of the operating revenues of the general and Okeechobee Basin funds.

In 2011 SB 2142 was enacted imposing severe revenue cuts to all five of the state's water management districts. The combined operating revenue of the general fund and Okeechobee Basin fund fell by more than 30% or close to \$113 million in fiscal 2012 compared to the prior year. Revenues have remained stable since the fiscal 2012 cuts as the district has adopted revenue-neutral tax rates, negating the benefit from the post-recession recovery in the district's taxable assessed valuation (TAV) - an increase of more than 30% from \$665.6 billion in fiscal 2012 to \$872.2 billion in fiscal 2017.

The preliminary budget of each water management district is subject to legislative review, and the governor may approve or disapprove in whole or in part the budget of each water management district. Furthermore, the legislature may enact legislation that sets the authorized maximum millage rate or the maximum amount of property tax revenue to be raised in a given year for each water management district. These provisions effectively

eliminate the ability of SFWMD to independently utilize the 0.8 mill maximum statutory taxing power granted to it under the Florida Water Resources Act of 1972. The tax rate adopted for fiscal 2017 was only 0.3307 mills (roughly 40% of the statutory cap) for the Okeechobee Basin (inclusive of the three millage rates: districtwide, Okeechobee Basin, and the Everglades construction project).

### Expenditure Framework

The district works with the state and various federal agencies to carry out various water management objectives managing a system of almost 4,000 miles of canals and levees, 690 water control structures, and 70 pump stations, among other assets. SFWMD's chief function remains flood control. Other functional activities center on the management of land use and right-of-way, engineering and construction, consumptive use permitting, upland and wetland species invasive management, and water quality monitoring and reporting.

The nature of SFWMD's operating responsibilities is expected to translate to a fairly controllable pace of spending over time. The spenddown of project budgets is the key expenditure variable with debt service, pension, and personnel costs are expected to be fairly static based on current management objectives.

Fitch views SFWMD's expenditure flexibility as a key rating strength. Debt service and pension costs equal roughly 10% of governmental fund spending in fiscal 2015, and Fitch expects them to remain fairly neutral going forward. The district has taken a strict stance against issuance of additional debt advancing the bulk of its capital plan based on the availability of state funding. Pension costs related to the district's participation in the state pension plan, the Florida Retirement System (FRS), are very low at less than 2% of governmental spending in fiscal 2015. FRS has a Fitch-adjusted ratio of assets to total pension liability of 80% as of June 30, 2016.

Employee salaries and benefits are not collectively bargained providing SFWMD with broad legal control over personnel costs. Salaries and benefits are about \$145 million in fiscal 2017, which approximates 30% of governmental spending less fixed capital outlays. The district has

demonstrated its ability to realign staff size and personnel costs in response to changes in its revenue environment having cut roughly 450 full-time positions or 24% of total staff since fiscal 2011.

Fitch's assessment of the district's expenditure flexibility also reflects the significant degree of deferrable spending in the budget. Outside of flood control Fitch views the bulk of the district's operating responsibilities as discretionary. The district may also scale back its annual O&M capital program which averages about \$50 million per year.

#### Long-Term Liability Burden

Fitch estimates SFWMD's long-term liability burden at roughly 4% of personal income. The bulk of the metric is related to the debt obligations of overlapping governments as the district's direct debt and net pension liability (NPL) are very low. SFWMD's outstanding debt is currently estimated at \$385 million or 0.1% of personal income and its proportional share of the net pension liability of the Florida Retirement System was under \$35 million.

The district has significant capital needs reported at more than \$1.7 billion through fiscal 2021. Ecosystem restoration is the single largest spending area, accounting for roughly 80% of the plan. The bulk of capital funding is dependent on annual appropriation by the state, complementing the district's annual commitment (about \$50 million) to its O&M capital program. The fiscal 2017 budget funds \$243 million of fixed capital outlay. Governor Scott's proposed budget for fiscal 2018 recommends a similar level of funding in support of SFWMD capital investment. The district has not issued new money debt in more than a decade and there are no plans to issue additional debt in the future.

#### Operating Performance

The revenue reductions imposed following the adoption of SB 2142 contributes to a very high level of cyclical revenue volatility via the Fitch Analytical Sensitivity Tool (FAST), an 8.8% decline in year one of the standard -1% U.S. GDP scenario. Fitch also examined SFWMD's TAV as a proxy for its operating revenue given the dominance of ad valorem property taxes as a funding source for the operating budget. The TAV-based FAST results are still high with a year one revenue loss of 6.4%. Fitch would expect the SFWMD to

respond to revenue stress associated with an economic downturn in the same fashion it did in 2011 with extensive budgetary reductions and careful management of capital investment.

Another cushion against revenue risk in an economic downturn is the district's unrestricted fund balance resources. The total unrestricted fund balance for the general and Okeechobee Basin funds for fiscal 2015 totaled close to \$64 million or 26% of spending. In addition the Okeechobee Basin fund reported a restricted fund balance of \$11.2 million for budget stabilization and \$100.5 million for subsequent year's operations over which management has fairly broad discretion as to use. However, Fitch expects the district will spend down the bulk of these resources over time to supplement its operating revenue and capital project funding. Fitch believes the district will continue to maintain compliance with an internal fund balance policy equal to \$60 million for flood control and weather emergencies which translate to a level of reserve cushion consistent with an 'a' financial resilience assessment.

SFWMD has done a solid job of realigning its budget and maintaining a satisfactory level of financial flexibility. Operating revenues are accurately forecast and actual spending is consistently under budget. Operating surpluses have generally been achieved in the general fund and Okeechobee Basin fund on an aggregate basis over the prior decade.

Contact:

Primary Analyst

Michael Rinaldi

Senior Director

+1-212-908-0833

Fitch Ratings, Inc.

33 Whitehall Street

New York, NY 10004

Secondary Analyst

Eva Rippeteau

Director

+1-212-908-9105

Committee Chairperson

Amy Laskey

Managing Director

+1-212-908-0568

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.

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: [elizabeth.fogerty@fitchratings.com](mailto:elizabeth.fogerty@fitchratings.com).

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**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=1020704&cft=0](https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1020704&cft=0))

Solicitation Status ([https://www.fitchratings.com/gws/en/disclosure/solicitation?pr\\_id=1020704](https://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=1020704))

Endorsement Policy (<https://www.fitchratings.com/regulatory>)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings) (<https://www.fitchratings.com/understandingcreditratings>). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES.

FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2016 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of



experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed. The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration

statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001

### **Solicitation Status**

Fitch Ratings was paid to determine each credit rating announced in this Rating Action Commentary (RAC) by the obligator being rated or the issuer, underwriter, depositor, or sponsor of the security or money market instrument being rated, except for the following:

**Endorsement Policy** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the EU Regulatory Disclosures (<https://www.fitchratings.com/regulatory>) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.