Fitch Ratings

Fitch Rates Miami-Dade County, FL Public Facilities Rev Rfdg Bonds 'AA-'; Outlook Stable

Fitch Ratings-New York-17 April 2017: Fitch has assigned a rating of 'AA-' to the following revenue bonds of Miami-Dade County, Florida:

--$82,040,000 public facilities revenue refunding bonds (Jackson Health System), series 2017.

The Rating Outlook is Stable.

The bonds are being issued to refund all or a portion of the outstanding public facilities revenue bonds, series 2005 and series 2009 for debt service savings. The bonds will be offered via negotiation on or about April 26.

SECURITY
The public facilities revenue bonds are payable in the first instance by the gross revenues of the Public Health Trust (PHT) derived from the operation of certain county health facilities including but not limited to Jackson Memorial Hospital and Holtz Children's Hospital. The bonds are also secured by a cash-funded debt service reserve fund (DSRF) equal to maximum annual debt service (MADS). The county covenants to budget and appropriate non-ad valorem (NAV) revenues to replenish any draws from the DSRF. The obligation of the county to budget, appropriate and make payments to the DSRF from its legally available NAV revenue is subject to the availability of such funds after satisfying funding requirements for essential governmental services of the county and debt service on bonds secured by a lien on such revenue.

KEY RATING DRIVERS

County Credit Quality: The 'AA-' rating is based on the NAV covenant and the county's long-term credit quality, as expressed through its Issuer Default

Rating (IDR) of 'AA'/Stable Outlook. Fitch rates NAV debt comparable to appropriation-backed obligations given the absence of a pledge of specific revenue and inability to compel the county to generate NAV revenue sufficient to pay bondholders.

The 'AA' IDR reflects the combination of the county's high revenue-raising authority relative to potential revenue declines under a moderate economic downturn scenario, more moderate capacity to adjust spending from both a legal and practical perspective, and history of conservative budgeting that support an expectation for maintenance of an adequate financial position through economic cycles. Fitch also expects the county to maintain a long-term liability burden in the moderate range.

Economic Resource Base

Revenue Framework: 'aa' factor assessment
General fund revenue growth has trailed the rate of U.S. economic expansion and inflation over the prior decade. The relatively stagnant revenue performance reflects a combination of statewide property tax reform and exposure to a volatile real estate sector that resulted in significant contraction of property tax revenue, the single largest general fund revenue stream. However, Fitch believes growth prospects for the economy are solid over time which should translate to improved revenue performance. The county also retains considerable independent legal ability to raise revenue.

Expenditure Framework: 'a' factor assessment
Expected growth in the county's population and cost of service delivery should lead to a pace of spending growth that is more or less in line with to marginally above revenues over time. Expense pressures are driven by labor costs which are subject to collective bargaining, and contributions to health and transit operations derived from maintenance-of-effort formulas. The county demonstrated its ability to control spending through layoffs and other adjustments during the most recent economic downturn but those cuts will likely limit the existing level of expenditure flexibility.

Long-Term Liability Burden: 'aa' factor assessment
Fitch expects debt and pension liabilities to remain moderate taking into

consideration future borrowings and the slow pay-out of existing debt.

Operating Performance: 'aa' factor assessment
General fund operating results have been variable over time and generally sensitive to broader economic conditions that affect its property and sales tax revenue streams. However, the county has consistently taken actions that have preserved an adequate level of reserves and financial flexibility in economic downturns.

RATING SENSITIVITIES
Financial Flexibility: The IDR is sensitive to the county's ability to retain a level of financial flexibility commensurate with the level of risk inherent in a revenue stream that exhibits a fair amount of sensitivity to periods of economic and real estate decline.

CREDIT PROFILE

Miami-Dade serves as the anchor of the Miami-Fort Lauderdale-West Palm Beach metropolitan statistical area (MSA), one of the largest regional population centers and economies in the U.S. Trade and transportation is the leading sector by employment reflecting the county's position as a gateway for trade with Latin American countries. Miami's tourism and real estate markets retain an international appeal that supports expectations for long-term growth but presents risk to volatility; other economic weaknesses include a high incidence of poverty.

The countywide taxable assessed value (TAV) for fiscal 2017 is more than $250 billion - an almost 9% annual increase which also surpasses the prior peak-year value recorded in fiscal 2008. New construction is reported to have added $5 billion to the countywide tax base with the balance of growth derived from property appreciation. The current median home value in Miami-Dade County reported by Zillow Group is close to $270,000 or a one-year increase in excess of 8% but the projection for the next year is essentially flat. Fitch believes the tax base is exposed to risk of higher than average declines in a downturn, as was the case during the Great Recession when TAV fell almost 25% in aggregate from fiscal 2009-2012.

The county owns and operates significant transportation assets, most notably the Port of Miami and Miami International Airport, which support its role as an international gateway, particularly to Latin America and the Caribbean. A desirable geographic location and abundance of recreational amenities position Miami as a significant destination for leisure travelers and retirees; the hospitality sector recorded record highs across several key metrics in 2015 based on data reported by the Greater Miami Convention & Visitors Bureau.

Revenue Framework

Property taxes fund roughly 50% of the general fund budget followed by various service charges and license and permits which combine to fund 20% of the budget. The next largest funding source for general fund spending is state revenue sharing funds. This includes the county's portion of the local government sales tax (LGST) which is based on countywide retail sale activity and distributed to the county and each of its municipalities pursuant to a population-based formula.

Stagnant Historical Revenue Performance

General fund revenues have increased at a CAGR of less than 1% over the 10 fiscal years ending in 2016. The low level of historical revenue growth reflects a period of dramatic decline in housing and taxable value in the county. The median value of homes in Miami-Dade County fell more than 50% from 2007-2011 based on information reported by Zillow Group, and the county's tax base declined 25% in fiscal years 2009-2012. General fund revenue performance was also negatively impacted by statewide property tax reforms in 2007 and 2008. Given the nature of these events coupled with forecasts for population, employment, and income growth in the Miami-Fort Lauderdale-West Palm Beach MSA, Fitch believes general fund revenues will likely outpace historical growth in the near to intermediate term.

High Independent Revenue Raising Authority

The non-voted general operating millage rate adopted for fiscal 2017 was 7.37 mills compared to a statutory limit of 10 mills. Annual changes in the millage rate are determined using a rolled-back or revenue-neutral rate adjusted for changes in the Florida per capita personal income; however, this limitation may be overridden by vote of the county governing body. The county also has a separate 10-mill limitation applicable to the unincorporated municipal service area (UMSA). Approximately 45% of the county's population resides within the UMSA; these residents pay a separate property tax for "municipal" services provided by the county. Fitch estimates the county can generate approximately $625 million in additional property tax revenue under the countywide tax rate cap and $510 million within the UMSA tax rate cap (compared to general fund revenues of almost $2.1 billion in fiscal 2016).

Expenditure Framework
The general fund supports a broad range of governmental activities including general administration and oversight, police and fire rescue, recreation, transportation, and public health, among other functions. Public safety is the largest single expense category consuming roughly 45% of total general fund spending.

General fund spending levels have generally risen in lockstep with revenue from fiscal 2010-2016 as the county has taken proactive measures to control labor related costs. The current tax base resurgence has produced an uptick in revenue growth that is largely being allocated to fund employee pay increases. This could place some pressure on the balance between revenue and expenditure performance at the next downturn in the economy and tax base absent action by the county to once again reign in spending. Spending pressures associated with debt and pension are expected to remain more moderate.

Adequate Controls over Employee Headcount and Wages
The county retains an adequate to solid capacity to adjust spending levels throughout the economic cycle. Employee wages and benefits are subject to collective bargaining. Contracts are in place for most general government employees. The county is at an impasse with the transit workers union. Under Florida law impasse resolution would occur through action of the governing body of the local government following the conclusion of a non-binding mediation process. The fiscal 2017 budget funds COLAs in addition to merit and longevity bonuses for all labor groups. The county has experienced mixed success achieving employee concessions in the past, most recently imposing, then retracting, higher contribution amounts for healthcare

coverage. The county retains legal authority to adjust the size of the workforce which it amply demonstrated during the last recession, achieving considerable cost savings. Recent budgets have increased funding allocations for a variety of services and programs that were reduced in prior years.

Funding Commitments to MDT and JMH Limit Overall Flexibility

The county's fixed cost burden associated with the payment of debt service and retiree pensions and OPEB is moderate at roughly 16% of governmental spending. However, spending flexibility is limited by the county's funding commitments for the operation of the Miami-Dade Transportation Department (MDT) and Jackson Memorial Hospital (JMH). The general fund contributions for each are subject to separate maintenance-of-effort (MOE) formulas. The healthcare MOE is based on a percentage of general fund revenues and the transit MOE escalates at 3.5% annually. Pursuant to the MOU between the county and the PHT the sales tax revenues are earmarked but not pledged to debt service on the public facility revenue bonds. The fiscal 2017 general fund budget appropriates $184 million for MDT and $175 million for JMH which collectively represent almost 20% of spending. The cost of funding debt service and retiree pension and health benefits is moderate, estimated by Fitch at less than 20% of total spending, but with MOEs the fixed-cost burden is fairly high.

Long-Term Liability Burden

Moderate LT Liabilities

Long-term liabilities associated with direct and overlapping debt and retiree pension benefits are moderate at approximately 11% of personal income. Direct debt is the main driver of the county's long-term liability burden accounting for close to 45% of the metric. The long-term liability metric is expected to increase in the intermediate term as the county continues to advance a sizable capital improvement plan and repay its outstanding debt at a slow pace. However, Fitch believes the metric will remain comfortably within the 20% benchmark it has established for an 'aa' key rating factor assessment. General government capital needs identified through 2021 total $4.4 billion (excluding aviation, water and sewer, and other enterprise supported activities).

Retiree pension benefits are largely derived from the county and the PHT's estimated proportionate share of the net pension liability (NPL) of the state administered Florida Retirement System (FRS). FRS remains well funded although deep recessionary losses ended a long period when retirement system assets far exceeded liabilities, with the state responding by implementing wide-ranging reforms to benefits and contributions. Although the funded ratio has stabilized since then, progress toward higher funded ratios has been limited in part due to a lack of full actuarial contributions during the fiscal 2011-2013 period. FRS's Fitch-adjusted funded ratio as of June 30, 2016 is 80%. The county administers a separate single employer defined benefit plan for employees of the PHT which has a Fitch-adjusted ratio of fiduciary net position to NPL of 89% in 2016.

Operating Performance

In a moderate economic downturn Fitch believes the county would use a combination of existing reserves and other sources of budgetary flexibility to maintain an adequate financial cushion, consistent with historical practice. As noted earlier, the county has ample capacity within the 10-mill property tax cap to offset declines in the tax base or other revenue streams, and a moderate to strong level of control over personnel headcount and wages. The county has effectively realigned spending in prior periods of revenue decline - for example, from fiscal 2008-2012 the county lowered general fund spending by close to 15% in response to a roughly equivalent decline in revenue.

The county annually updates a five-year financial plan which is balanced without the inclusion of any one-time revenues, and includes planned contributions to the emergency contingency reserve (equal to 7% of the general fund budget) that is recorded within the unassigned fund balance. Audited general fund financial statements for fiscal 2016 depict a $19 million (1% of spending) operating surplus after transfers. The unrestricted fund balance was reported at $257 million or 12% of spending. The unassigned portion of the unrestricted fund balance was $81 million; the remaining portion of the unrestricted fund balance is typically allocated for subsequent year spending (this reserve classification reflects, in part, Florida law which stipulates that counties budget only 95% of expected revenue in each year).

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Date of Relevant Rating Committee: June 29, 2016

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)

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