

December 4, 2017

City of Miami Beach  
1700 Convention Center Drive  
Miami Beach, FL 33139  
Attention: Mr. Eric Carpenter, Assistant City Manager

**Re: *US\$154,745,000 City of Miami Beach, Florida, Stormwater Revenue And Revenue Refunding Bonds, Series 2017, dated: Date of delivery, due: September 01, 2047***

Dear Mr. Carpenter:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA-" . S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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Please send hard copies to:

S&P Global Ratings  
Public Finance Department  
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New York, NY 10041-0003

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sn  
enclosures

cc: ***Mr. Alex Schmidt***  
***Mr. John Woodruff***  
***Ms. Julie Santamaria***  
***Luis Reiter, Esq.***

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## Summary:

## Miami Beach, Florida; Water/Sewer

### Primary Credit Analyst:

James M Breeding, Dallas (1) 214-871-1407; james.breeding@spglobal.com

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## Summary:

# Miami Beach, Florida; Water/Sewer

### Credit Profile

US\$154.745 mil stormwtr rev and rev rfdg bnds ser 2017 due 09/01/2047

*Long Term Rating*

AA-/Stable

New

Miami Beach stormwtr

*Long Term Rating*

AA-/Stable

Affirmed

## Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Miami Beach, Fla.'s series 2017 stormwater revenue and revenue refunding bonds. At the same time, S&P Global Ratings has affirmed its 'AA-' rating on the city's previously issued stormwater bonds. The outlook is stable.

The rating reflects the combination of a very strong enterprise risk profile and a very strong financial risk profile. The enterprise risk profile reflects our view of the system's:

- Service area participation in the broad and diverse Miami-Fort Lauderdale-West Palm Beach metropolitan statistical area economy;
- Adequate market position, reflective of above-average utility rates and stormwater rates;
- Very low industry risk as a monopolistic service provider of an essential public utility; and
- Overall good operational management practices and policies, though the city has experienced severe tidal flooding in recent years.

The financial risk profile reflects our view of the system's:

- Strong debt service coverage and liquidity,
- Relatively large capital improvement program (CIP), and
- Generally strong financial management practices and policies.

A very strong enterprise risk profile and a very strong financial risk profile map to an indicative rating in our revenue debt criteria matrix of 'aa/aa-', and we have selected the 'aa-' anchor based on the relatively high utility rates and the potential for rates and expenditures to increase due to the significant CIP associated with the city's system's reliance on Miami-Dade County for water supply and wastewater treatment. While these bonds are not secured by water and wastewater revenues, rate pressures could emerge, as the stormwater fee is included on the monthly water/sewer bill.

Bond proceeds will be used to refinance existing obligations and provide funds for capital improvements.

Miami Beach's stormwater system serves a built-out service area of about 90,000 residents spanning about 18 square miles. Overall economic indicators appear stable, but weak in some areas. While the unemployment rate is below the national average at less than 4.0%, median household effective buying income is only at about 84% of the national average, and the county poverty rate is hovering near 20%.

Given the limited availability of undeveloped land in the city, adding additional customers is unlikely. Therefore, any increases in expenditures will need to be absorbed by the existing customer base. The current monthly charge of \$23.30 is very high relative to neighboring communities' rates, and is projected to increase by an additional \$5.24 in 2019.

Financially, the system has performed well. Over the past five years, operating revenues have grown significantly to almost \$30.0 million from \$12.0 million. This growth was due almost entirely to sizable rate increases. Over the same period, operating expenditures increased to \$7.3 million from \$3.6 million. The result is net revenues ranging from \$7.9 million to almost \$22.0 million. With annual debt service climbing to \$11.3 million from \$5.9 million, the resultant debt service coverage was no lower than 1.3x, and approached 2.0x in 2017.

The system has maintained strong levels of cash in recent years, with unrestricted cash and investments totaling about \$15.0 million at the end of fiscal 2016, representing multiple years of operations. However, a portion of this will likely be used to supplement bond proceeds as the city addresses the CIP.

Financial projections indicate a trend of increasing revenues and expenditures. The annual required debt service payment increases to more than \$15.0 million, but coverage is projected to remain near 1.7x. The CIP through 2022 totals just over \$300 million. Funding for the CIP is expected to come from a combination of the series 2017 bonds and the anticipated series 2022 bonds, along with proceeds generated through the local Miami-Dade County tax increment financing district.

In terms of financial management, city officials routinely prepare long-term financial and capital forecasts. The city reviews operating results on a monthly basis, has full rate-setting autonomy, and can make budget adjustments at any time.

## **Outlook**

The stable outlook reflects our expectations that the stability within the customer base will continue, and overall economic conditions will not fluctuate significantly. Additionally, the outlook reflects our expectation for the stormwater fund's financial performance to remain strong, evidenced by strong annual debt service coverage levels and a stable liquidity position.

### **Upside scenario**

An upgrade would be dependent on the city maintaining a very strong financial position as expenditure increases related to the capital plan are realized.

### **Downside scenario**

Conversely, a lower rating could be warranted should the city's financial position deteriorate. This could be due to unexpected economic challenges, or a rapid rise in expenditures related to additional capital needs.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.

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