

CREDIT OPINION

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New Issue

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Miami Beach (City of), FL Stormwater Enterprise

New Issue: Moody's assigns Aa3 to Miami Beach, FL's \$155M Stormwater Rev. Bonds, Series 2017; outlook stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to \$154.7 million City of Miami Beach, FL Stormwater Revenue and Revenue Refunding Bonds, Series 2017. We currently maintain a Aa3 rating on \$180 million outstanding Stormwater Revenue Bonds. The outlook is stable.

The Aa3 rating is based on the system's healthy liquidity position, adequate debt service, mature service area and high leverage.

Credit Strengths

- » Strong cash reserves
- » Willingness to raise rates in concert with additional debt

Credit Challenges

- » Adequate debt service coverage
- » Highly leveraged system with significant additional debt expected

Rating Outlook

The stable outlook reflects our expectation that the city will manage significant additional debt of the system, which provides an essential service given the city's location on a barrier island, with timely rate increases, maintaining coverage and cash levels.

Factors that Could Lead to an Upgrade

- » Significant increase in debt service coverage
- » Significant reduction in debt burden

Factors that Could Lead to a Downgrade

- » Additional debt without timely rate increases, resulting in weakened debt service coverage
- » Significant declines in liquidity

Key Indicators

Exhibit 1

| MIAMI BEACH (CITY OF) FL STORMWATER ENTERPRISE | | | | | |
|---|---|-----------|-----------|----------|-----------|
| System Characteristics | | | | | |
| Asset Condition (Net Fixed Assets/ Annual Depreciation) | 96 years | | | | |
| System Size - O&M (\$000) | \$5,551 | | | | |
| Service Area Wealth: MFI % of USmedian | 88.60% | | | | |
| Legal Provisions | | | | | |
| Rate Covenant (x) | 1.10x | | | | |
| Debt Service Reserve Requirement | No explicit DSRR; or funded with speculative grade surety (Baa and Below) | | | | |
| Management | | | | | |
| Rate Management | Aa | | | | |
| Regulatory Compliance and Capital Planning | Aa | | | | |
| Financial Strength | | | | | |
| | 2012 | 2013 | 2014 | 2015 | 2016 |
| Operating Revenue (\$000) | \$11,612 | \$11,672 | \$11,715 | \$21,258 | \$21,491 |
| System Size - O&M (\$000) | \$4,252 | \$3,445 | \$3,722 | \$5,566 | \$5,551 |
| Net Revenues (\$000) | \$7,721 | \$8,577 | \$8,240 | \$15,866 | \$16,405 |
| Net Funded Debt (\$000) | \$39,099 | \$49,266 | \$63,486 | \$76,313 | \$112,540 |
| Annual Debt Service (\$000) | \$4,837 | \$5,848 | \$5,849 | \$6,828 | \$11,237 |
| Annual Debt Service Coverage (x) | 1.6x | 1.5x | 1.4x | 2.3x | 1.5x |
| Cash on Hand | 757 days | 1056 days | 1083 days | 583 days | 991 days |
| Debt to Operating Revenues (x) | 3.4x | 4.2x | 5.4x | 3.6x | 5.2x |

Source: Moody's Investors Service, Audited Financial Statements

Recent Developments

The projection for fiscal 2017 year end coverage was updated to 1.9 times. The debt section was updated to include this offering. This report is largely unchanged from the report published on October 4, 2017.

Detailed Rating Considerations

Service Area and System Characteristics: Mature System on Barrier Island Susceptible to Flooding, Hurricane Risks

The large stormwater system's service area covers 4,200 acres and is co-terminous with Miami Beach. Miami Beach is one of 33 municipalities that is a co-permittee with Miami-Dade County through the National Pollutant Discharge Elimination System. The current permit has expired and an application for a new permit has been submitted. The system is in compliance with all relevant regulatory bodies. Notably, as a barrier island, the city is subject to greater stormwater needs than most US stormwater systems. A significant portion of the system lies at an elevation below 2.2-feet. The city's projections include increased vulnerability to flooding. The capital plan addresses mitigating these challenges.

The stormwater fee is imposed on properties based on Equivalent Residential Units (ERUs) which currently stands at 109,000 ERUs, representing a population base of 87,779 according to the 2010 Census. The customer base is expected to remain stable in this mature, tourism dependent service area. The stormwater fee is billed as part of the water, sewer and garbage bill, and collection rates have historically been high.

Hurricane Irma made landfall in Florida in September. According to management, the stormwater system performed well and had about \$200,000 in unexpected expenditures. Management expects most of that amount to be reimbursable from FEMA.

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Debt Service Coverage and Liquidity: Adequate Debt Service Coverage Mitigated by Strong Liquidity

The stormwater system will likely maintain adequate financial operations given healthy liquidity and a history of timely rate increases. Management has typically increased rates prior to significant debt issuances, including a substantial 84% increase in fiscal 2015 and a 36% increase in 2017. Current projections include an additional rate increase in 2019 of 19% prior to another debt issuance. Debt service coverage has historically been adequate. In fiscal 2016 coverage was 1.55 times. Management projects that coverage will be approximately 1.9 times in 2017. Debt service coverage will likely remain in the 1.4- to 2.0-times range over the near term. This level is relatively weak for the Aa3 rating category, and therefore any inability to maintain coverage at these levels as additional debt is issued could represent a significant weakening of credit quality.

LIQUIDITY

Fiscal 2016 ended with \$15 million in unrestricted cash and investments or a strong 991 days cash on hand. Additionally, the system maintains \$6 million in a Rate Stabilization fund. These rate stabilization funds are restricted by designation by the city commission, which can release them as needed. There are no current plans to materially draw on cash, a positive credit factor as the system's strong liquidity is the most meaningful counterweight to the system's below average debt service coverage.

Debt and Legal Covenants: Highly Leveraged System With Additional Debt Expected

The system is highly leveraged and the capital plan includes significant additional debt. The system's debt will more than double over the next five years with \$100 million in new money in the current issuance and another \$100 million issuance in 2020. Proceeds will fund a variety of projects including conversion to a pump system from a gravity fed system to address the city's vulnerability to flooding. The system's capital plan includes \$500 million of projects, which management expects to address over the next 10 years. Debt to operating revenues was a high 5.2 times in fiscal 2016. As long as revenue increases keep pace with debt issuance, this ratio will not grow.

Legal provisions are weak with a rate covenant of 1.1 times annual senior lien debt service; an additional bonds test requiring net revenues for any 12 of the 18 preceding months to be 1.1 times MADS on the current and proposed bonds or 1.1 times MADS on the current and proposed bonds for the future in order to issue parity debt. The flow of funds is liberal in that it allows an open loop structure whereby the system can transfer funds to the city's General Fund if needed. There is no debt service reserve fund for the 2017, 2015 or 2009 bonds. The 2011 bonds have a debt service reserve funded at MADS.

DEBT STRUCTURE

All the system's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The system has no exposure to derivatives.

PENSIONS AND OPEB

Pensions are not a significant factor in this methodology.

Management and Governance

System management is generally strong and has the legal ability to raise rates without third party approval. The utility has independent rate-setting authority. Management is generally conservative in its projections and budgets for a 1.2 times rate covenant annually. Positively, management has implemented significant rate increases prior to additional debt issuances. Any inability to pass future rate increases as additional debt is issued will pressure the rating.

Legal Security

The bonds are secured by the net revenues of the system.

Use of Proceeds

Approximately \$87 million of proceeds will be used for various projects throughout the system. The remaining \$67.3 million will be used to refund \$44.3 million in outstanding Series 2011A and \$25.3 million Series 2011B bonds for total NPV savings of \$3.6 million or 5.2% of refunded principal.

Obligor Profile

City of Miami Beach Stormwater system covers 4,200 acres and services 109,000 ERUs. Miami Beach had a population of 91,026 in 2014.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Miami Beach (City of) FL Stormwater Enterp.

| Issue | Rating |
|---|--------------------------------|
| Stormwater Revenue and Revenue Refunding Bonds, Series 2017 | Aa3 |
| Rating Type | Underlying LT |
| Sale Amount | \$154,745,000 |
| Expected Sale Date | 12/12/2017 |
| Rating Description | Revenue: Government Enterprise |

Source: Moody's Investors Service

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