

RatingsDirect®

Summary:

Deerfield Beach, Florida; Appropriations; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

Deerfield Beach, Florida; Appropriations; General Obligation

Credit Profile

US\$36.095 mil cap imp rev bnds ser 2018 due 12/01/2040

Long Term Rating

AA/Stable

New

Florida Mun Loan Council, Florida

Deerfield Beach, Florida

Florida Mun Loan Council (Deerfield Beach) rev bnds (City of Deerfield Beach Loan)

Long Term Rating

AA/Stable

Upgraded

Florida Mun Loan Council (Deerfield Beach) (AGM)

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AA' from 'AA-' on Deerfield Beach, Fla.'s debt secured by its covenant to budget and appropriate non-ad valorem revenue based on the application of its "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" methodology, published Jan. 22, 2018 on RatingsDirect. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's series 2018 capital improvement revenue bonds. Finally, S&P Global Ratings affirmed its 'AA' long-term rating on the city's general obligation (GO) debt. The outlook is stable.

The rating action reflects our view under the updated methodology that the non-ad valorem pledge effectively constitutes an ongoing special obligation of the city that is indistinguishable from its general creditworthiness. These obligations provide funding for projects we believe are central to the city, and the city's non-ad valorem revenue constitutes a majority of its operating revenue.

The 2018 bonds and the city's existing covenant obligations are secured by the city's covenant to annually budget and appropriate debt service from legally available non-ad valorem revenue. The bond proceeds will be used to finance various capital improvements, including street improvements, park and recreational improvements, city hall improvements, and improvements to the city's center for active aging. The bond proceeds will also be used to refund the 2006 Florida Municipal Loan Council bonds, outstanding principal of \$4.1 million.

Non-ad valorem revenue is defined in the resolution as all revenue of the city not derived from ad valorem taxation and legally available to pay debt service. Non-ad valorem revenue provided approximately 64.9% of total governmental revenue in 2016, making it an integral component of city operations. The bonds also carry an anti-dilution test requiring average non-ad valorem revenue over the past two years to exceed 1.5x projected maximum annual debt service.

The 'AA' rating reflects our opinion of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 33% of total governmental fund expenditures and 7.4x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 4.5% of expenditures and net direct debt that is 65.3% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Strong economy

We consider Deerfield Beach's economy strong. The city, with an estimated population of 79,863, is located in Broward County in the Miami-Fort Lauderdale-West Palm Beach MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 85.5% of the national level and per capita market value of \$117,552. Overall, the city's market value grew by 8.6% to \$9.4 billion in 2016. The county unemployment rate was 4.6% in 2016 and fell to 3.6% as of November 2017.

Deerfield Beach is a coastal community in northeastern Broward County. The city is approximately 18 miles north of Fort Lauderdale, halfway between Miami and West Palm Beach. The local economy, which tourism has historically anchored, has continued to diversify toward industries such as trade, government, health care, education, and professional services. Indicators point to continued growth in the local economy, with total county employment increasing more than 9% since 2014 and assessed value (AV), which has yet to return to prerecession levels, has increased steadily in recent years. Taxable AV is \$6.6 billion for fiscal 2018, an increase of 35.9% over the past five years. The tax base is very diverse with the top 10 taxpayers accounting for 8.45% of AV. The largest taxpayers are City National Bank of Florida, Publix Supermarket, and Florida Power & Light Co.

Prospects for continued economic growth in Deerfield Beach are positive considering steady taxable value growth and increasing taxable retail sales. The city expects similar growth in the range of 7% to 8% over the next two years. Taxable sales were \$1.3 billion in 2016, representing a 28% increase since 2008. Based on current trends and increasing economic activity in the city, particularly around its I-95 corridor, we expect the Deerfield Beach economy to remain strong over the outlook horizon.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key budget practices include the use of financial trends to budget for revenue and expenditures and regular monthly budget-to-actual updates with the city commission. Budget assumptions are formulated using multiple years of historical actual results in combination with discussions with the county appraiser and revenue estimates from the

State of Florida. The city maintains a five-year capital improvement plan that identifies project costs and potential sources of funding that is updated annually with the budget. In addition, Deerfield Beach maintains formal investment and reserve policies. The city recently adopted a formalized debt management policy that places limitations and guidance surrounding debt issuances. The reserve policy stipulates the maintenance of unassigned general fund reserves of at least 10% of general fund operating expenditures and transfers. The city also maintains a policy to maintain an additional 5% of budgeted general fund expenditures for natural disasters and emergencies. The city does not engage in formalized long-term financial planning in a manner that is incorporated with its budget.

Strong budgetary performance

Deerfield Beach's budgetary performance is strong, in our opinion. The city had operating surpluses of 6.2% of expenditures in the general fund and of 5.1% across all governmental funds in fiscal 2016. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from the very strong 2016 results, as performance is anticipated to moderate in 2017 and 2018. General fund operating results of the city have been stable over the past three years, with a result of 5.4% in 2015 and a result of 7.5% in 2014.

Fiscal 2016 marked the fourth consecutive year of positive general fund operating results. The surplus in 2016 resulted from continued growth in key revenue streams that has allowed Deerfield Beach to remain balanced despite increasing expenditures, particularly for personnel. Property taxes, the city's largest single source of governmental funds revenue, accounted for \$34.9 million in 2016, up \$2.0 million (or 6%) over fiscal 2015 as a result of increasing taxable property values. Total tax revenue was \$61.3 million in fiscal 2016, approximately 28% higher than in fiscal 2012. In addition to the recovery of taxable values and improving economic conditions, the growth in tax revenue is due to a one-mill tax rate increase in fiscal 2014 and the introduction of public service taxes in 2012 as a means of diversifying the city's revenue base. In fiscal 2016, Deerfield Beach's primary sources of general fund revenue were property taxes (36%), fire assessment fees (11%), charges for services (10%), public service taxes (8%), and franchise fees (8%). We have adjusted the city's revenue and expenditures for what we view as routine transfers to and from the general fund.

The fiscal 2017 budget was balanced with a slight 1.1% increase over the 2016 budget. Through the first nine months of the fiscal year, management reports that expenditures were trending below budget and revenue was on target. Operating results are expected to be slightly lower than in fiscal 2017 as a result of major purchases for the fire department fleet and increased personnel costs tied to the reversal of salary reductions implemented during the height of the recession.

Fiscal 2017 results will also incorporate impacts related to Hurricane Irma, with city officials estimating \$4 million in damage-related costs. The Federal Emergency Management Agency is anticipated to reimburse the city for 87.5% of the costs.

The 2018 budget represents a 4.4% increase over the 2017 budget, with modest increases in labor costs partly stemming from labor negotiations. The 2018 budget includes a general fund surplus of \$298,000. If state voters move to increase the homestead exemption this November, officials report that the estimated impacts on future budgets would be equivalent to \$1.3 million. Officials note that increased revenue in other areas or certain expenditure reductions may be necessary to offset the decline if the measure is enacted. We note that the city's relatively low portion of property tax revenue as a proportion of governmental revenue (35.1%) would provide some stabilization

compared with peers if the exemption is approved. However, given recent growth in market values and in other revenue bases relative to expenditures, we anticipate budgetary performance will remain strong to adequate.

Very strong budgetary flexibility

Deerfield Beach's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 26% of operating expenditures, or \$24.4 million.

The city's available fund balance has increased more than 80% since fiscal 2014. Management reports that Deerfield Beach has no plans to spend down fund balance over the next two years. We expect budgetary flexibility to remain very strong with the city maintaining available reserves that are above 15% of expenditures. The city recently moved to increase its fund balance target to 15% of expenditures, including 5% dedicated to disasters and emergencies.

Very strong liquidity

In our opinion, Deerfield Beach's liquidity is very strong, with total government available cash at 33% of total governmental fund expenditures and 7.4x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Deerfield Beach maintains a very strong liquidity position. At fiscal year-end 2016, cash and investments constituted 75% of general fund assets and 80% of total governmental fund assets. The city's strong access to external liquidity is evident in its ability to issue GO and covenant bonds over the past 20 years. Currently, all of Deerfield Beach's investments comply with Florida statutes and the city's internal investment policy. At fiscal year-end 2016, Deerfield Beach's investments included investments in Florida Prime, the Florida Municipal Investment Trust, money market funds, and government securities. We do not expect the city's liquidity position to worsen in the near term.

Weak debt and contingent liability profile

In our view, Deerfield Beach's debt and contingent liability profile is weak. Total governmental fund debt service is 4.5% of total governmental fund expenditures, and net direct debt is 65.3% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, which is in our view a positive credit factor.

Deerfield Beach has no swaps or variable-rate debt. Officials report that \$75 million in GO bonds may be issued over the next three to five years for various capital improvements.

In our opinion, a credit weakness is Deerfield Beach's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Deerfield Beach's combined required pension and actual OPEB contributions totaled 12.6% of total governmental fund expenditures in 2016, with 10.2% representing required contributions to pension obligations and 2.4% representing OPEB payments. The city made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 74.7%.

The City of Deerfield Beach, as a single employer, maintains three defined benefit pension plans covering full-time firefighters, police officers, and non-uniformed employees. The single employer plans are closed to new membership. Contribution rates are actuarially determined and the city has historically fulfilled its annual required contribution. The plan funded ratios as measured by the ratio of fiduciary net position as a percentage of net pension liability were 74.7% for firefighters, 70.5% for police, and 87.2% for non-uniformed employees as of the Sept. 30, 2016 measurement date. The combined net pension liability of \$60.5 million increased 5.9% from the 2015 measurement date.

In addition, the city has participated in the Florida Retirement System's pension and Health Insurance Subsidy (HIS) plans for elected officials since 2001. FRS pension and HIS are cost-sharing, multi-employer defined benefit pension plans. Contribution rates are established by the Florida Legislature and the city has historically contributed 100% of those amounts. As of the most recent measurement date, the plans were funded 85% (FRS pension) and 0.97% (HIS). The city's proportionate share of the FRS pension net pension liability was \$533,000 in fiscal 2016.

The city also provides a single-employer defined benefit postemployment health insurance benefit to its general employees, firefighters, and police officers who are members of the Deerfield Beach Municipal Police Officers' Retirement Trust Fund. Benefit provisions and city contribution requirements are established and may be amended by the City Commission. As of the most recent actuarial valuation, on Oct. 1, 2014, the city's unfunded actuarial accrued liability for OPEB was \$63.4 million. Officials report that retiree contribution rates were recently increased, which should modestly decrease the city's share of the pay-as-you-go expenditures, though the actuarial liability will likely continue to increase. The city's combined pension and OPEB liability of \$123.9 million is equal to 116% of total governmental revenue, which we consider elevated.

Strong institutional framework

The institutional framework score for Florida municipalities with revenue or expenditures greater than \$250,000 is strong.

Outlook

The stable outlook reflects our expectation that Deerfield Beach will maintain stable operating performance and very strong budgetary flexibility and liquidity positions. The outlook also reflects our expectation that the city's economic growth will continue with the support of residential and commercial development.

Upside scenario

All else equal, we could raise the rating if the city's income and wealth metrics continue to rise relative to those of higher-rated peers and if the city is able to manage budgetary pressures associated with potential revenue changes and an elevated pension and OPEB liability.

Downside scenario

Although we are unlikely to do so, we could lower the rating if Deerfield Beach realized a period of structural imbalance, leading to weakened reserve and liquidity positions.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 16, 2018)

Ratings Detail (As Of February 16, 2018) (cont.)

Florida Mun Loan Council, Florida

Deerfield Beach, Florida

Florida Mun Loan Council (Deerfield Beach) rev rfdg bnds (City of Deerfield Beach Loan)

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Many issues are enhanced by bond insurance.

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. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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