

Fitch Affirms Various Ratings on South Florida Water Mgmt District; Outlook Stable

Written by Australian Business

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings affirms the following ratings on the South Florida Water Management District (SFWMD or the district):

--\$478.6 million certificates of participation (COPs), series 2006 at 'AA-';

--\$13.1 million special obligation land acquisition refunding bonds, series 2002 and 2003 at 'A';

--Implied unlimited tax general obligation (ULTGO) at 'AA'.

The Rating Outlook is Stable.

SECURITY

The COPs are backed by lease rental payments made by the district, subject to annual appropriation. In the event of non-appropriation, the district must surrender all facilities lease purchased under the master lease agreement to the trustee who may re-let or sell the facilities for the benefit of certificate owners.

The special obligation land acquisition bonds are secured by a first lien on all payments received by the district from a water management lands fund trust (the trust fund). The payments consist of a designated portion of revenues derived from excise taxes on documents (the documentary stamp tax) imposed by the state on certain document filings including mortgages, original issues of stock, bonds and debentures, promissory notes or other written obligations to pay money.

KEY RATING DRIVERS

DISTRICT CREDITWORTHINESS SOUND: The 'AA' implied ULTGO rating reflects Fitch's view of the district's adequate financial position, a moderately low debt burden, limited exposure to employee-related spending pressure, a very broad and diverse economic base, and essential operating purpose that centers on flood control and restoration of the Everglades.

REDUCED AUTONOMY: Fitch remains concerned about action taken by the Florida legislature in 2011 that significantly reduced ad valorem taxes, the district's primary funding source, and eliminates the district's independent revenue-raising capacity.

COPS NOTCHED OFF IMPLIED ULTGO: Payment of COP debt service is contingent on annual appropriation. This lesser long-term commitment to repayment results in a rating lower than the implied ULTGO. A single-notch distinction reflects Fitch's belief there is sufficient incentive to appropriate based on financial and operational consequences of a lease default as well as the function served by the lease purchased assets.

ADEQUATE DOCUMENT STAMP COVERAGE: The 'A' rating on the special obligation bonds reflects adequate coverage from pledged revenues, statutory restrictions that prohibit the issuance of additional bonds, and short remaining life on the debt that minimizes risk of revenue volatility.

RATING SENSITIVITIES

OPERATING STABILITY: The rating on the COPs and the implied ULTGO is sensitive to the district's ability to carry out its functional responsibilities and maintain a generally stable budgetary environment and balance sheet.

PLEGGED REVENUE PERFORMANCE: For the special obligation land acquisition bonds, the rating is sensitive to changes in the collection of documentary stamp taxes driven by the real estate market, principally transaction volume and prices.

CREDIT PROFILE

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 a population of 7.9 million residing in all or parts of 16 south and central Florida counties including Broward, Miami-Dade, Orange and Palm Beach.

FAVORABLE DEBT POSITION

Fitch estimates the district's debt burden at roughly \$2,980 per capita and 2.5% of market value inclusive of the outstanding debt of all underlying governments. District debt contributes nominally to the overall burden with only \$509 million in principal currently outstanding.

SFWMD's debt service budget for fiscal 2014 totals \$42.1 million or an affordable 6.8% of the adopted budget. Almost \$7 million in debt charges relate to the special obligation bonds, which have a final maturity of Oct. 1, 2015.

The district has no additional debt plans. The capital improvement plan (CIP) totals \$977 million, of which almost \$686 million is funded by ad valorem taxes (an average of \$137.2 million per year). Management states that the fiscal 2014 budget and five-year CIP funds the district's core flood control and water supply missions, including its ability to carry out projects mandated by the federal government.

Pension benefits are offered through the Florida Retirement System which retains an adequate funding ratio. The combined costs for retiree pension and health care benefits are not a meaningful rating factor.

STRONG RESOURCE BASE FOR COPS REPAYMENT

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Though not legally pledged, ad valorem taxes serve as the primary source for repayment of the COPs. Ad valorem taxes have declined from a peak of nearly \$550 million in fiscal years 2007 and 2008 in all governmental funds to the budgeted sum of \$267 million in fiscal 2014. Despite the decline, ad valorem taxes remain considerable relative to maximum annual debt service (MADS) on the COPs which is just \$35.5 million.

According to state law the district's preliminary budget must specify that debt service on its COPs and special obligation land acquisition bonds is the first obligation for payment. However, the respective bond documents incorporate standard flow of funds provisions that do not explicitly recognize this priority.

District taxes are billed and collected by each county on a single tax bill combining county, city, school district and other special district taxes. The district's share represents a very small portion of the overall bill, and collection rates remain strong at 99% or better on a total basis.

SATISFACTORY INCENTIVE TO APPROPRIATE

An event of non-appropriation would force the district to surrender all leased assets to the trustee. Leased assets include the Everglades Agricultural Area reservoir, several stormwater treatment areas and a flow equalization basin. Fitch considers the essentiality of these assets to the district and its core mission as supporting the likelihood of annual appropriation of debt service. Furthermore, the project sites were largely acquired by the district under grant agreements with the U.S. Department of the Interior that would impose on the district the obligation to provide replacement land of at least equal fair market value if not used for purposes consistent with Everglades restoration.

Fitch also considers the fact that the district's budget is subject to review and approval by the governor, and believes it is highly unlikely the governor would approve a budget that does not adequately provide for the full repayment of debt. The governor also appoints the district board, subject to confirmation by the state senate.

BUDGET MORE STABLE FOLLOWING SIGNIFICANT TAX REVENUE LOSS

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The aforementioned reduction in ad valorem tax revenue was driven by a near 30% loss in the district's tax base from fiscal years 2008-2012. Furthermore the state legislature imposed a 30% cut in the district's ad valorem tax rate for fiscal 2012. The legislature also granted itself the authority to establish the district's annual tax revenue going forward; effectively eliminating any meaningful revenue autonomy previously possessed by district management, which Fitch views as a negative credit factor.

The district has countered its revenue loss with significant budget cuts. Annual operating expenditures and transfers out of the main operating funds - the general fund and the Okeechobee basin fund - totaled \$296.1 million in fiscal 2013 (unaudited) compared to \$470.4 million in fiscal 2008.

The district budget has stabilized since fiscal 2012 as has the tax base. The governmental funds fiscal 2014 budget, totaling \$622.2 million, represents an increase of 9.7% from the prior year, largely due to increased state funding. Taxable values increased 3.7% on the year, reaching \$694.9 billion for fiscal 2014. The state forecasts tax base growth of 4%-5% in fiscal 2015 for each of the largest counties comprising the district, an estimate Fitch considers reasonable. The fiscal 2014 budget does lower the ad valorem tax rate for a third consecutive year but much more moderately.

RESERVES PROVIDE ADEQUATE CUSHION

Financial resources remain sound at the close of fiscal 2013 with unrestricted balances in the general fund and Okeechobee basin fund totaling \$62.9 million or 21.2% of spending. Balance sheet liquidity is likewise ample, with cash and investments of almost \$180 million.

District policy calls for an economic stabilization fund in the amount of \$60 million across all governmental fund types. The district forecast depicts maintenance of the economic stabilization fund plus an additional \$13.5 million in undesignated reserves through fiscal 2017.

DOCUMENTARY STAMP TAX PERFORMANCE IMPROVES; COVERAGE SET AT 1X

The documentary stamp tax is collected by the state and shared between the state general revenue fund and various trust funds pursuant to statutory distribution formulas. The district's share of documentary stamp taxes is derived from amounts deposited in the water management lands trust fund (the trust fund). In 2011 the legislature limited the district's allocation of tax revenue from the trust fund to the sum necessary to pay debt service on the special obligation land acquisition bonds. The district received \$7.4 million in documentary stamp tax revenue in fiscal 2012, resulting in a slim 1.1x debt service coverage ratio inclusive of pledged interest income and civil penalties. Coverage would have remained close to 2x under the prior distribution formula which allocated the first 30% of revenue deposited to the trust fund to the district.

The trust fund receives 4.2% of the statewide documentary stamp tax revenue available for distribution, subject to a cap of \$60.5 million. Actual trust fund deposits in fiscal 2012 totaled \$48.4 million, compared to \$423.5 million in total revenue available for distribution after deposits to the state treasury and payment of debt service on state bonds.

The statewide collection of documentary stamp tax revenue has stabilized after significant declines in fiscal years 2008 and 2009. Statewide collections improved 9.1% in fiscal 2012 to \$1.26 billion. The state forecasts documentary stamp tax revenue growth to average 15.5% per year through fiscal 2016. Importantly, both series of special obligation land acquisition bonds mature on Oct. 1, 2015 and the district is prohibited by state law from issuing any additional new money bonds, limiting bondholders' exposure to future tax revenue volatility.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

Additional Disclosure

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