



Tagging Info

Fitch Rates Jacksonville, FL's Special Rev Rfdg Bonds 'AA'; Outlook Stable RatingsEndorsement Policy
09 Jul 2013 5:16 PM (EDT)

Fitch Ratings-New York-09 July 2013: Fitch Ratings has assigned a rating of 'AA' to the following special revenue bonds of the city of Jacksonville, Florida (the city):

- \$34,175,000 special revenue refunding bonds, series 2013A;
- \$36,605,000 taxable special revenue refunding bonds, series 2013B.

The bonds will be sold via negotiation the week of July 22. Proceeds will refund outstanding special revenue bonds for an estimated net present value savings of \$4.5 million or 7.4% of refunded par. Proceeds of the series 2013B bonds in the amount of \$14,545,000 will finance the acquisition of a building that currently houses the public defender.

In addition, Fitch affirms the 'AA' rating on approximately \$703 million of outstanding special revenue bonds and the 'AA+' implied ULTGO rating on the city.

The Rating Outlook is Stable.

SECURITY

The special revenue bonds are secured by the city's covenant to budget and appropriate non-ad valorem revenues, by amendment if necessary. The availability of non-ad valorem revenues to pay debt service is subject to the funding of essential government services and obligations with a specific lien on non-ad valorem revenues. The issuer's non-ad valorem covenant is cumulative and continues until the bonds have been fully paid.

KEY RATING DRIVERS

COVENANT DEBT NOTCHING: A one-notch distinction between the special revenue bond rating and the implied ULTGO rating reflects the absence of a pledge of specific revenue and inability to compel the city to raise non-ad valorem revenue sufficient to pay debt service.

EXCELLENT FISCAL TRACK RECORD: General fund operations have been prudently managed with surplus results recorded in each of the last seven audited fiscal years despite recession-driven revenue pressures and rising costs associated with employee pension benefits.

SOLID FINANCIAL POSITION: Recent operating surpluses have built up a healthy unrestricted general fund balance that provides a cushion against emergencies or unanticipated spending needs.

STABLE ECONOMY: Jacksonville serves as the economic center for northeast Florida. The considerable operations of the U.S. Navy, trade and transportation activity at the Port of Jacksonville, and a sizable health care and financial services presence promote expectations for long-term stability.

WEAK PENSION PICTURE: A large unfunded pension liability and rapidly rising pension contributions remain a key credit concern. Tentative agreements on pension reform have been reached that, pending city council approval, are expected to stabilize the city's pension burden over the long term.

MANAGEABLE DEBT BURDEN: Key debt ratios are considered moderate by Fitch and should remain so based on the city's limited future capital needs and borrowing plans.

RATING SENSITIVITIES

CONTROL PENSION COSTS: Concerns remain as to the strain placed on the credit profile of the city given its high pension liability, although the current rating and Stable Outlook assume implementation of recent agreements on pension reform in the context of continued prudent fiscal management. Delay in implementing reforms could pressure the rating.

CREDIT PROFILE

COVENANT REVENUES OFFER DIVERSITY AND SATISFACTORY COVERAGE

Non-ad valorem revenue in fiscal 2012 totaled \$504 million (a 0.5% year-over-year increase) compared to special revenue bond maximum annual debt service (MADS) of \$145.7 million. Fitch adjusts non-ad valorem revenue to consider the prior obligation to fund essential governmental services, resulting in available non-ad valorem revenue of \$322.6 million.

Non-ad valorem revenues are very diverse and include utility taxes (\$123.1 million), contributions from the electric and water and sewer utility operations of the Jacksonville Electric Authority (JEA) (\$104.2 million), the city's share of one-half-cent local government sales tax (\$72.6 million), and franchise fees (\$40.6 million) among other sources.

TREND OF POSITIVE OPERATIONS

Audited financial results for fiscal 2012 (ending September 30) show a \$21.2 million operating surplus (after transfers) in the general fund, marking an impressive seven consecutive years of positive year-end results. Spending prudence continues to play a critical role in the city's financial performance; in fiscal 2012, operating expenditures finished 10% or \$87.5 million below the original general fund budget.

The sum of unrestricted general fund reserves improved to \$145 million or 15.3% of spending in fiscal 2012. The city has a goal of maintaining a 5% to 7% emergency reserve and a 5% to 7% operating reserve, which Fitch considers a comfortable cushion against unanticipated budgetary pressures.

A balanced budget was adopted for fiscal 2013 after closing a preliminary gap of \$68.7 million. Personnel savings are expected to offset modest revenue underperformance, and a surplus of approximately \$5 million is estimated at year-end. A fiscal 2014 budget will be formulated in the coming weeks.

SIGNIFICANT PENSION LIABILITIES A RISK TO CREDIT QUALITY

The city's pension burden is considered high, particularly for the 'AA+' implied ULTGO rating. For all city plans, the Fitch-adjusted funded ratio (which assumes a 7% investment rate of return) is very weak at 50.5%, and the unfunded actuarial accrued liability (UAAL) a significant \$2.7 billion or 3.5% of market value.

Furthermore, the city's pension costs more than doubled from \$65.3 million in fiscal 2006 to approximately \$150 million in fiscal 2013. In fiscal 2012 the city's actual pension contribution, which was actuarially determined based on a percent of payroll, was \$10.4 million less than the actuarial required contribution (ARC) due to a decline in payroll during the year. The total cost associated with funding pension and other long-term liabilities, including debt service and other post-employment benefits (OPEB), consumed a high 27% of non-capital governmental fund spending in fiscal 2012.

TENTATIVE AGREEMENTS REACHED ON REFORM ARE A POSITIVE

In May the city announced a series of tentative agreements on pension reform with various collective bargaining units, including police and fire, which account for the bulk of its pension UAAL and annual funding requirement. In Fitch's view these agreements create a more sustainable pension situation for the city over the long term, although pension contributions will remain an ongoing challenge. The agreements are subject to the approval of city council (a simple majority vote, or 10 out of 19 councilmembers). Council is expected to vote on the agreements no later than September in conjunction with the fiscal 2014 budget process.

The city's actuary estimates a cumulative saving of \$1.2 billion over the next 30 years from the police and fire agreement alone if approved. An additional \$600 million in savings is estimated if all four of the city's general employee unions agree to the reforms (two of the unions representing 686 employees or about 8% of the city's workforce remain at an impasse).

Pension reform will largely affect new hires. Plan design changes include an increase in the required years of service, adding a collection age of 62 years for vested employees rather than the normal retirement age, and reducing the cap on

annual cost of living adjustments (COLA), accrual rates, and the benefit cap. Both new hires and existing employees will pay higher contributions. Existing employees also agreed to a one-time transfer of \$20 million from an enhanced benefits reserve to base benefits which effectively lowers the city's fiscal 2014 contribution.

Pension costs will continue to rise and pressure the budget even if the agreements are approved, but to a lesser extent. Absent the police and fire pension reforms the city would pay approximately \$72 million more in pension contributions over the ensuing five fiscal years (excluding the one-time reserve transfer).

FISCAL 2014 BUDGET GAP COULD NECESSITATE SEVERE CUTS

After closing budget gaps aggregating approximately \$170 million from fiscal 2011-2013, the preliminary fiscal 2014 budget deficit totals \$64 million without pension reform or \$18.9 million with pension reform. Absent pension reform the city would be faced with a significant 13.9% reduction in controllable costs that would likely necessitate furloughs and layoffs (750-850 employees) and the closure of libraries, fire stations, and recreational facilities.

In Fitch's view limitations on spending flexibility combined with the city's steadfast opposition to raise taxes or other local revenue could pressure future operations absent a more robust level of tax base or economic growth. The proposed fiscal 2014 budget maintains a constant tax rate for the fourth consecutive year at 10.04 mills. The tax rate is well below Jacksonville's statutory limit of 20 mills and considered by Fitch competitive with the combined city/county tax rate of other major Florida metro areas. Property taxes, which account for roughly 50% of general fund revenue, have fallen significantly from \$482.7 million in fiscal 2011 to \$423 million in fiscal 2014 (budgeted).

Taxable assessed value (TAV) declines in Jacksonville have been slightly more moderate than most other major Florida metro areas, but significant nonetheless, with TAV down 21% between fiscal years 2009-2013. The estimated valuation for fiscal 2014 is down 1% following a 4.8% loss in fiscal 2013. Available housing statistics show single-family home prices appear to be on the rebound through the first six months of 2013 which should reflect favorably on the fiscal 2015 tax roll.

MODERATE DEBT BURDEN

Overall debt metrics remain moderate at 4% of market value or \$3,673 per capita. Fitch does not anticipate a major change in the city's debt profile, as future borrowing is expected to vary from \$30 million to \$65 million annually during the 2013-2017 capital improvement plan (CIP) period. The amount of debt to be issued is notably lower than the amount of outstanding debt scheduled to amortize over the same period.

ECONOMIC CENTER FOR NORTHEAST FLORIDA

The Jacksonville job market continues to rebound from the recession. Unemployment spiked to 11.3% in 2010 following the loss of close to 29,000 jobs (a 7.2% decline) during the prior three-year period. The city recorded job growth of 1.3% in 2011 and 2.5% in 2012, and April 2013 employment is 3.7% ahead of the same month figure in 2012. Unemployment currently stands at 6.7%, which is slightly favorable compared to the state and national jobless rates. Global Insight forecasts non-farm employment to expand a solid 2.2% per year through 2018.

The city's economy and tax base remain diverse but there is a moderate degree of concentration to the U.S. Navy. Naval Air Station (NAS) Jacksonville and NAS Mayport combine to employ 37,910 or 5.8% of the Jacksonville metropolitan statistical area labor force. The Port of Jacksonville continues with major expansion projects that should serve to boost the metro area's sizable trade and transportation sectors. Growth in the healthcare sector has helped diversify the economy, with major employers including Baptist Health (8,270), the Mayo Clinic (4,970), St. Vincent's Health (4,000), and Shands Jacksonville (3,500).

Contact:

Primary Analyst
Michael Rinaldi
Senior Director
+1-212-908-0833
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Larry Levitz

Director
+1-212-908-9174

Committee Chairperson
Douglas Offerman
Senior Director
+1-212-908-0889

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

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, IHS Global Insight, and National Association of Realtors.

Applicable Criteria and Related Research:

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

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure

Solicitation Status

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: [HTTP://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](http://fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEBSITE '[WWW.FITCHRATINGS.COM](http://www.fitchratings.com)'. PUBLISHED RATINGS, CRITERIA AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE 'CODE OF CONDUCT' SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2013 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries.