

SECTOR IN-DEPTH

23 June 2016

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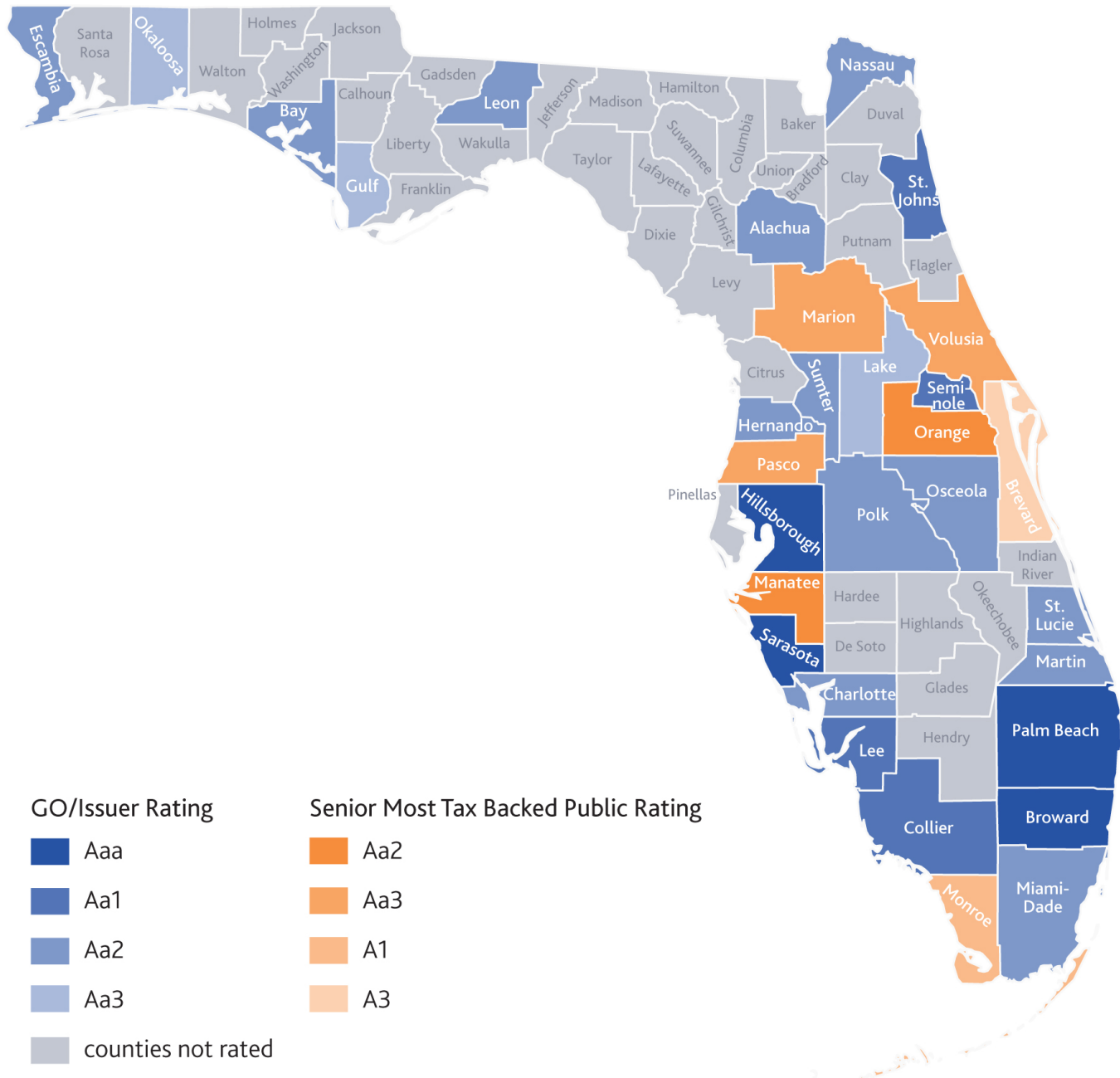
Local Government - US

Florida Counties Benefiting from Rising Property Values and Improving Economy

[Florida](#) (Aa1 stable) counties are on the upswing nearly 10 years after the housing-market collapse. While the majority remain below pre-recession levels in certain key credit metrics, counties will continue to benefit from robust property value growth, increasing financial stability, and expanding employment opportunities. The median general obligation/issuer rating for both Florida and US counties is Aa2.

- » **The vast majority of Florida counties that Moody's rates will capitalize on strong growth in property values.** With the aftereffects of the housing crash easing, along with increasing economic activity, 90% of the 31 counties we rate saw tax-base growth from fiscal 2012 to 2016. Although most county full values remain below pre-recession peaks, 21 of the counties we rate have reached at least 75% of their peak. [Miami-Dade](#) (Aa2 stable), [Orange](#) (Aa2 stable), [Alachua](#) (Aa2) and [Sumter](#) (Aa2) counties are leaders in the recovery with each topping pre-recession peaks.
- » **Florida counties' finances are poised to benefit from increasing tax revenues and improving reserve levels.** With the nosedive in property tax revenues between fiscal 2007 and 2013, many counties drew on reserves to support operations. However, partly through a combination of reserve draws and expenditure cuts, counties emerged from the recession with largely healthy financial profiles. Now, with property, sales and local tax revenues experiencing sharp rebounds, reserve levels are set to rise and surpass pre-recession highs in many counties.
- » **Employment trends are positive with an expanding job market and growing activity across most sectors.** After reaching 11.2% at the height of the recession in December 2009, Florida's unemployment rate is down to 4.8%. In the 31 counties we rate, the number of employed grew 14% between 2010 and April 2016, driven in part by in-migration, retiring baby boomers, new construction, and a flourishing tourism industry. According to Moody's Economy.com, employment will increase 11.2% through 2021.

Exhibit 1

Moody's Rates 31 Counties in Florida, Representing 82% of the Population

General obligation and issuer ratings are equivalent, both based on the [US Local Government General Obligation Methodology](#).

Population figure based on Florida Office of Economic and Demographic Research, April 2015 estimates

Sources: Florida Department of Economic Opportunity and Moody's Investors Service

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Vast majority of counties Moody's rates will capitalize on strong growth in property values

As one of the hardest hit states in the nation, Florida's counties are making a strong comeback. Moody's rates at least one security for 31 of the state's 67 counties, which represents 82% of the state population (see Exhibit 1 on previous page).¹ Over the five-year period between fiscal 2012 and 2016,² 90% of the counties with ratings experienced growth in property values, as measured by full value³ (see Exhibit 2). More than a third of these counties grew by more than 20%, with many clustered along the coasts.

In the lead-up to the housing bubble collapse, full values of counties we rate increased 41% from fiscal 2006 to 2008, only to decline precipitously by 33% through 2013 as property values deflated. A turning point came in fiscal 2014, when all but two counties experienced organic growth. The factors driving growth since 2008 are largely free of the excesses that existed before the Great Recession, in part because of new regulations and policies that have eliminated loose lending practices leading to Florida's housing bubble.

Exhibit 2

Making a Comeback: Florida Counties Experience Full Value Growth Fiscal 2012 to 2016

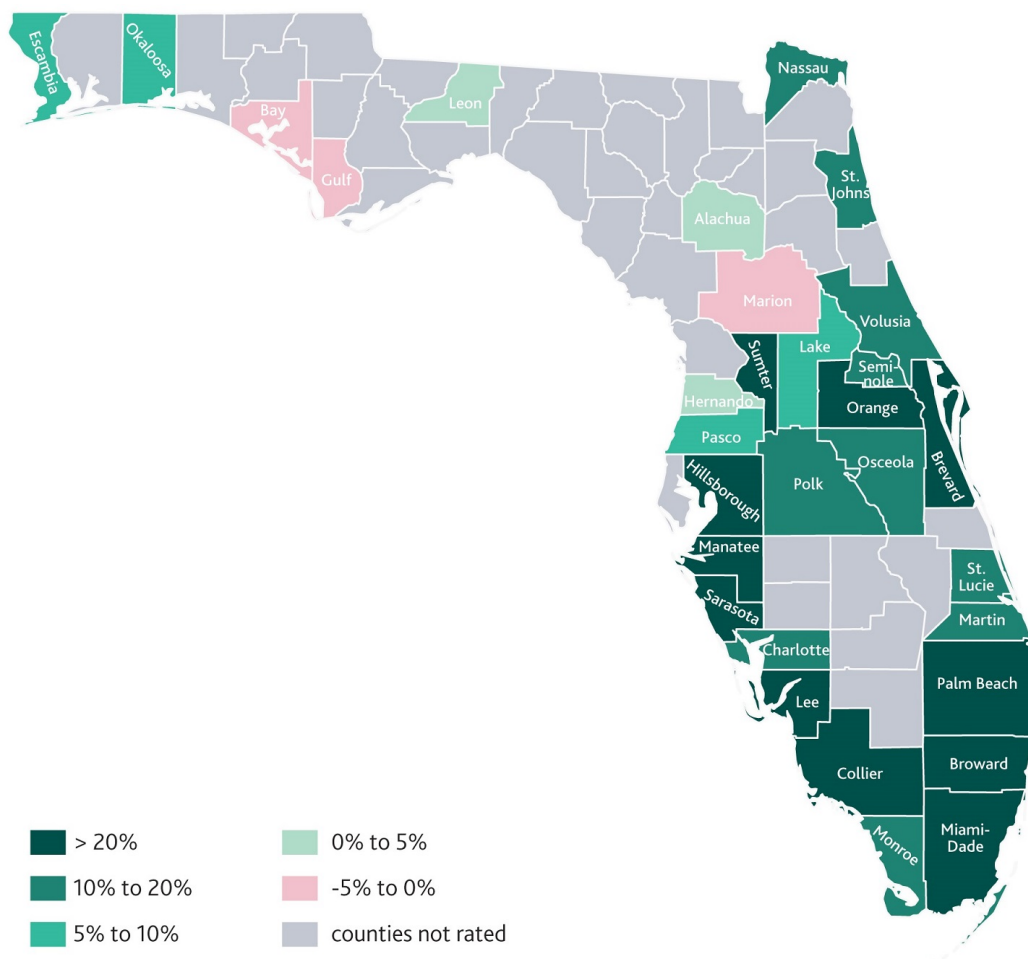


Exhibit covers 31 Florida counties Moody's rates

Sources: Florida Department of Revenue and Moody's Investors Service

Florida's emergence from the recession trailed other parts of the country. The state's recession ended in early 2010, while the national downturn ended June 2009. From fiscal 2010 through fiscal 2014, the median full value for Florida counties we rate declined 16.4%, as opposed to a national median increase of 1.9%. The full value declines in Florida were concentrated in the early years of the 2010-16 period, as evidenced by median full value growth of 17.1% from fiscal 2012 through 2016. Furthermore, in fiscal 2014, the median full value for all rated counties was \$25.7 billion, as opposed to the US county full value median of \$7.4 billion⁴, illustrating a key credit strength of these local governments.

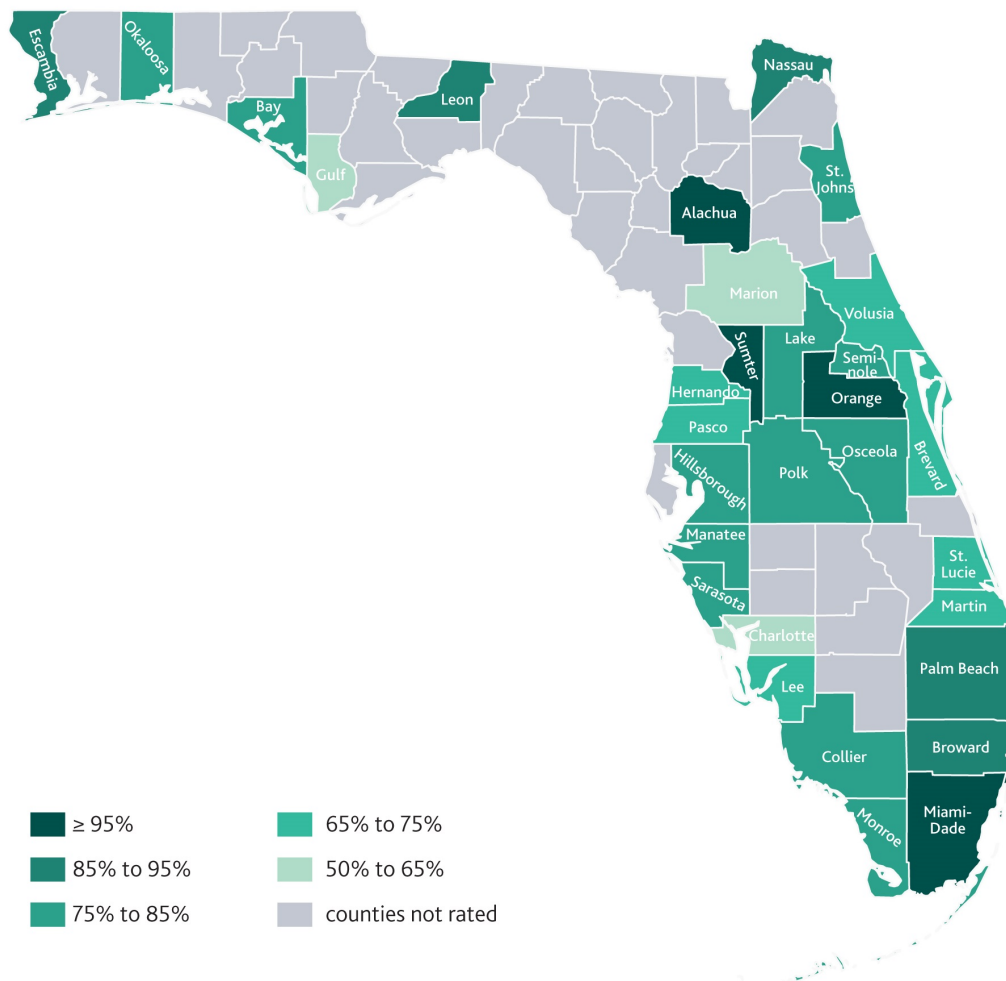
At least two-thirds of the rated Florida counties are above 75% of their pre-recession full value peak, a substantial recovery given the dramatic declines (see Exhibit 3). In addition to the rebounding housing market, new construction and diversification of local economies are contributing to full value growth, with notable gains in the southeast and central regions of the state.

Miami-Dade, Orange and Alachua counties are standouts, having returned to 100% of their peak values using preliminary assessed values for fiscal 2017.⁵ Sumter County leads the pack at 150% of its peak value.

Exhibit 3

Florida Counties Approaching Pre-Recession Peaks, Highlighting Recovery

Fiscal 2016 full value as a percent of peak value



Four counties uniquely spearheading economic growth

MIAMI-DADE COUNTY: SIZABLE AND DIVERSIFIED ECONOMY

The largest tax base and economic hub in Florida has grown substantially due to its diversified industries, a high-skilled bilingual workforce and unique role as the gateway to international business with Latin America. Although the county suffered steep losses during the housing crash and experienced a high level of foreclosures, preliminary fiscal 2017 assessed values at \$250 billion mark the first time values are above the fiscal 2009 peak. Additionally, the only two sectors that remain below 2008 employment levels are construction and finance/insurance/real estate, a lingering result of the housing collapse. Both, however, are growing. Other industries including health care and educational services, as well as arts, entertainment and recreation, have grown at a far higher 15%-plus since 2008. As the recovery continues, gains in construction, retail, hospitality and healthcare are expected to expand, according to Moody's Economy.com.

ORANGE COUNTY: TOURISM MAGNET

With Disney World and Universal Studios, the county continues to experience robust job growth in its leisure and hospitality industry. Since 2008, the leisure and hospitality industry has added 18,520 positions and the sector accounted for 19% of 2014 employment. This job growth offsets construction, finance and real estate which continue to lag pre-recession peaks, although total employment in these industries has increased since 2010. Wage growth remains weak, however, partly due to the low pay related to the tourism industry. Also, significant in-migration from [Puerto Rico](#) (Caa3 negative) will continue to depress wage growth, according to Moody's Economy.com. With its major attractions, the [Orlando](#) (Aa1 stable) metropolitan statistical area (MSA) had 66 million visitors in 2015, an increase of 5.5% from 2014.⁶ At \$101 billion, the fiscal 2016 assessed value for the county was slightly below the 2009 peak of \$107 billion. But it is likely to surpass that mark in the 2017 fiscal year.

ALACHUA COUNTY: UNIVERSITY PRESENCE

Located in the north central region of the state, Alachua withstood the recession well considering the housing decline, losing 12.7% of its assessed value from 2008 through 2013. The county's tax base remained largely stable because of the [University of Florida](#) (Aa2 stable), the county's principal employer. The relatively stable educational services and health and social care sectors accounted for 38% of 2014 employment. Additionally, the county's above-average bachelor's degree attainment rate of 40.1% (compared to 32% in the US in 2014) remains attractive to high-wage employers.

SUMTER COUNTY: RETIREMENT HAVEN

Sumter is the only county in Florida to experience continued growth throughout the recession in assessed value, reaching a \$7.7 billion in 2014, up 33% from 2008. Its largest community, The Villages (a census-designated place, CDP), has one of the healthiest economies in the state with its large retirement community. Population growth led by senior citizens, a fast-growing demographic group, has outpaced every other CDP area in the country for the past three years. The increasing supply of retirees has fueled local economic growth, partly because working-age people are needed to serve the retirees in the health care and services industries.

Florida counties' finances are poised to benefit from increasing tax revenues and improving reserve levels

Florida counties' financial positions are primed for growth, despite lingering challenges from the past few years. Of the counties we rate, 90% experienced severe declines in property values, resulting in diminished property (ad valorem) tax revenue, their largest income source. The majority reacted by tapping into already strong reserves, cutting expenditures, and/or increasing millage rates. As a result, many counties emerged from the recession in largely healthy financial shape.

Now, with full values and property tax revenues increasing, many counties are poised to bolster reserves and improve their financial profiles, possibly topping pre-recession peaks. For the first time since fiscal 2007, property tax revenues increased for counties we rate in fiscal 2014 (by an aggregate 4.8%), a trend we expect to continue (see Exhibit 4).

Based on audited data from 15 counties we rate, including [Broward](#) (Aaa stable) [Palm Beach](#) (Aaa stable) and Orange counties, fiscal 2015 projections show an aggregate 6.5% increase. As property tax revenues, on average, account for 53% of these counties' operating revenue, increases in this key revenue source will provide counties with more operating flexibility.

Exhibit 4

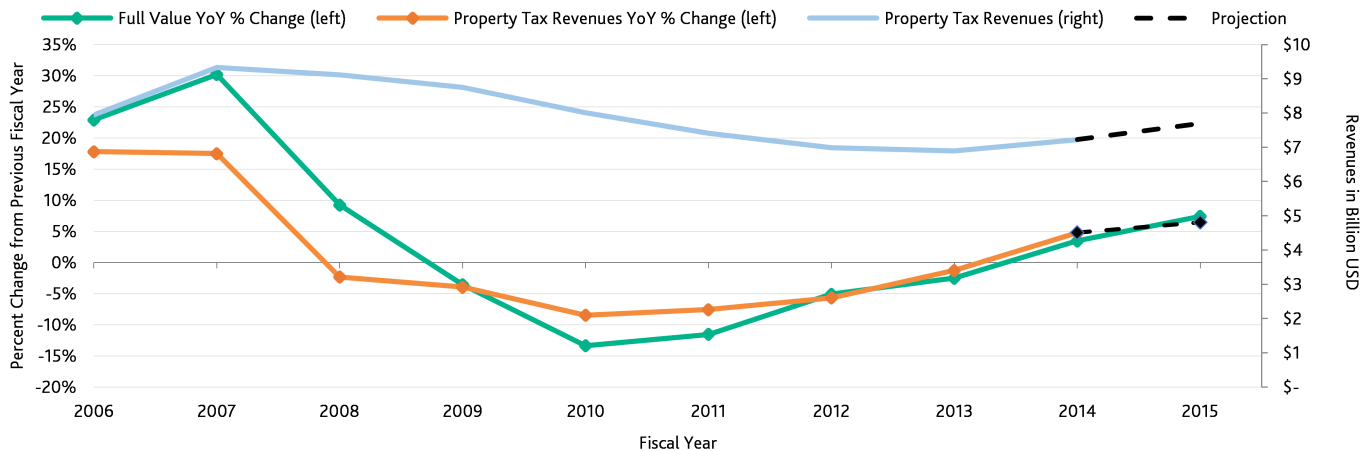
Property Tax Revenue Projected to Continue Increasing

Exhibit covers 31 Florida counties Moody's rates

Year-over-year change is between the previous fiscal year and plotted year (example 2005-2006 is noted as 2006)

Sources: CAFRs and Moody's Investors Service

Besides property tax revenues, counties also stand to benefit from local sales tax, transient rental tax⁷ and local fuel tax revenues, which have grown an aggregate 24% in the past five years along with the economy (see Exhibit 5). Transient rental tax revenues have increased since fiscal 2010 and local option sales tax revenues since fiscal 2012. In a sign economic activity will continue to spur higher tax dollars, Moody's Economy.com projects 11.2% employment growth from 2015 through 2021, similar to the 12.7% growth projected by the Florida Department of Economic Opportunity from 2015 through 2023.

Exhibit 5

Local Tax Revenues Are Rising

Aggregate 24% increase between fiscal 2010 and 2015

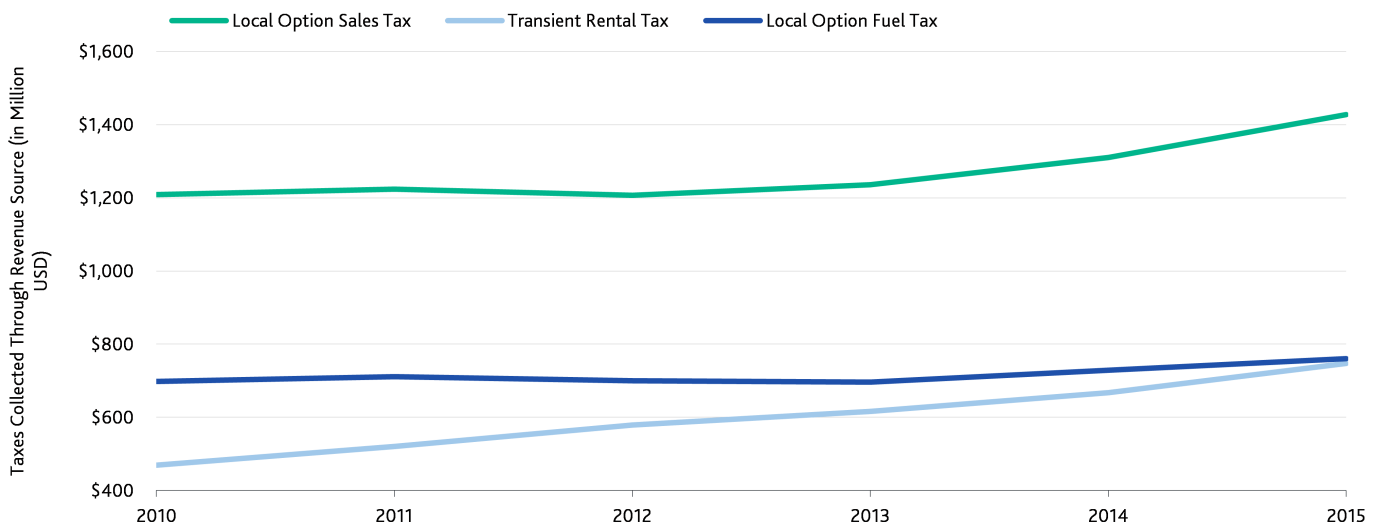
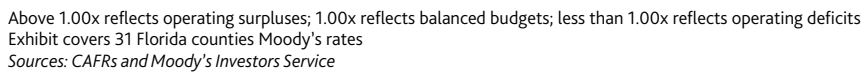


Exhibit covers 31 Florida counties Moody's rates

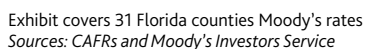
Source: CAFRs and Moody's Investors Service

Between fiscal 2010 and 2014, many counties, suffering from the effects of the housing crash, ran operating deficits and drew on reserves, which had historically been strong. Exhibit 6 captures the five-year-average of operating revenues to expenditures, illustrating the widespread deficit spending. Nonetheless, every county we rate also reduced expenditures year-over-year at least once between fiscal 2010-2014, with the average county experiencing two years of decreases (see Exhibit 7).

Most Counties Ran Operating Deficits as Revenues Suffered Five-Year Average Ratio of Operating Revenues to Expenditures



Number of Counties Reducing Expenditures from Previous Year Fiscal 2010-2014



The most recent financial data shows that the majority of counties we rate continue to have healthy financial positions. In fiscal 2014, the median reserve level⁸ for counties we rate was 27.4%, just slightly below the US county median of 33%, highlighting the flexibility Florida counties built up before the recession. As seen in Exhibit 8, 15 counties we rate (48%) had reserve levels above 30%, 10 were between 15% and 30%, and six were between 5% and 15%.

Exhibit 8

Bulk of the Counties Have Reserve Levels above 15%, Even after Drawdowns

Fiscal 2014 reserve levels (operating fund balance as a percent of revenues)

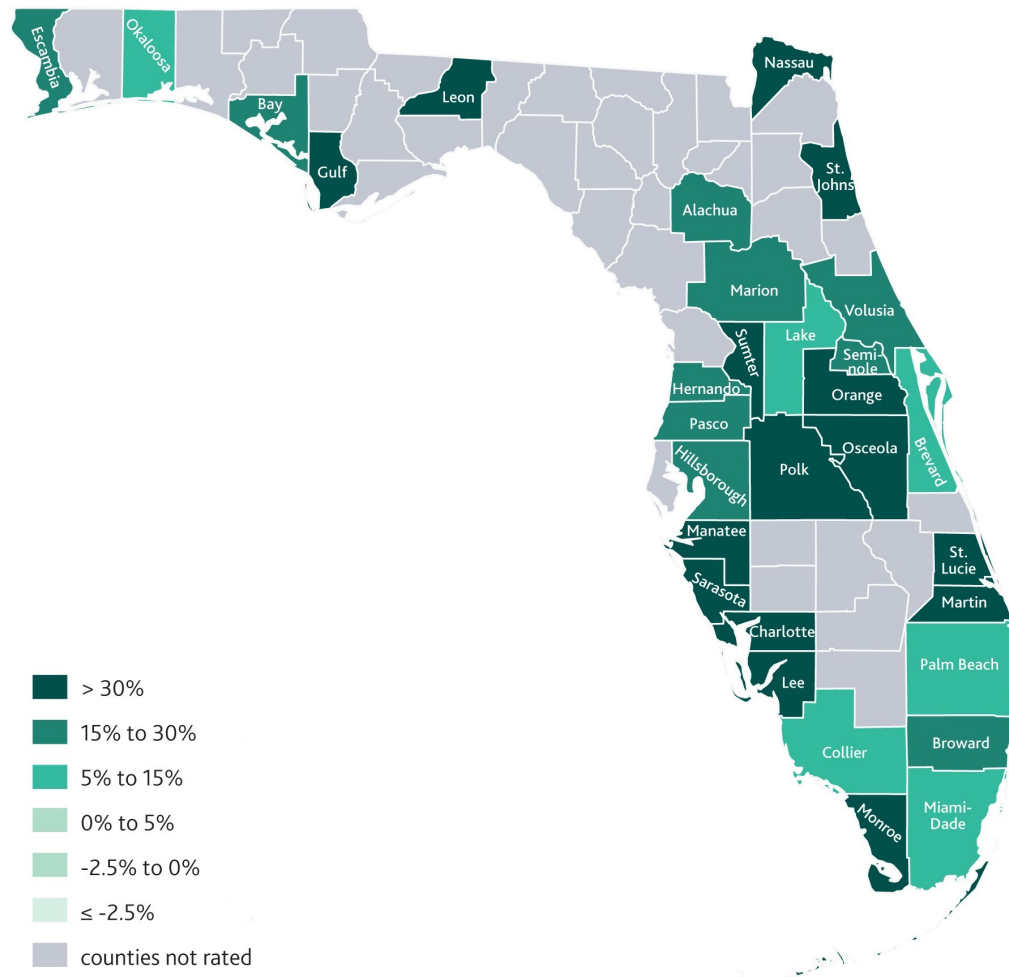


Exhibit covers 31 Florida counties Moody's rates
Sources: CAFRs and Moody's Investors Service

Employment trends are positive with an expanding job market and growing activity across most sectors

Florida's economy has substantially rebounded from the recession, and job growth likely will continue across most industries, including construction and tourism. After the unemployment rate spiked at 11.2% in December 2009, it was down to 4.8% in April 2016. Among counties we rate, more than 75% had unemployment levels below the 5% national average this spring (see Exhibit 9).

Exhibit 9

Florida County Unemployment Rates Dramatically Down from Recession Peak 24 counties below 5% unemployment (national rate, April 2016)

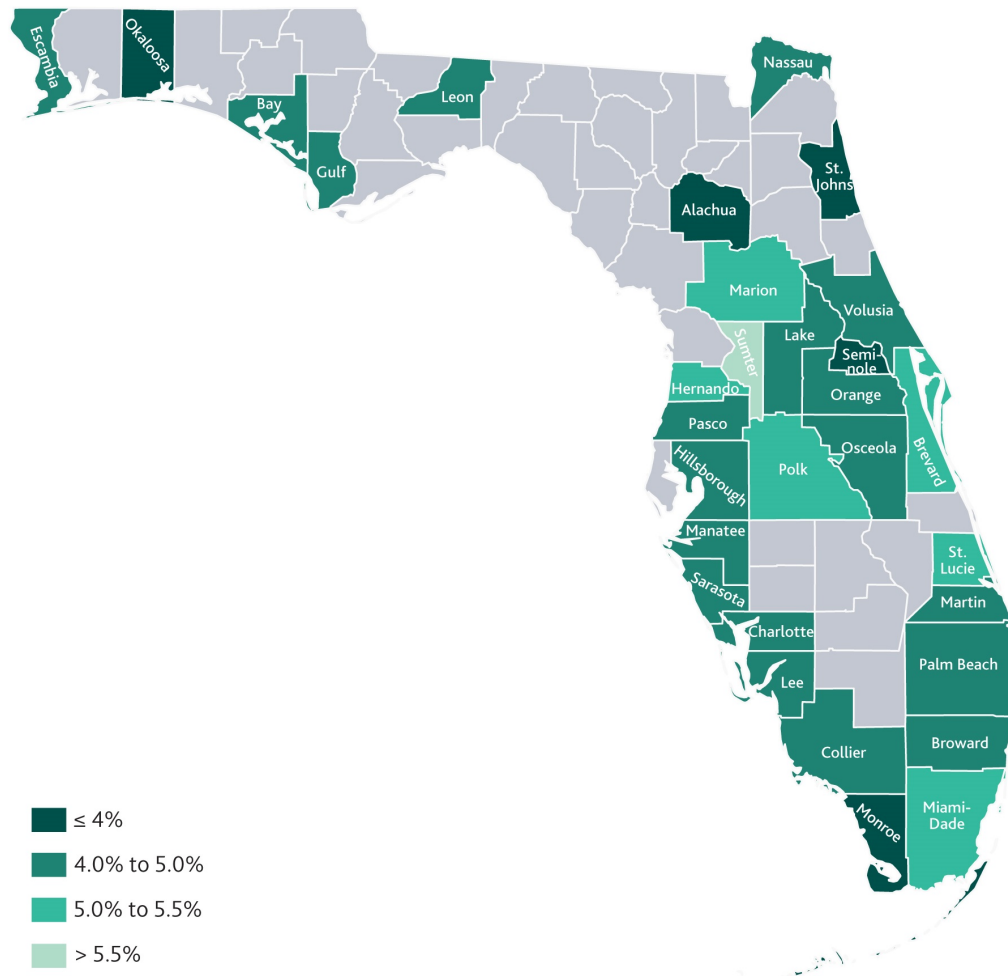


Exhibit covers 31 counties Moody's rates
Source: Bureau of Labor Statistics

Additionally, employment numbers have increased 14% across all counties we rate since 2010 (see Exhibit 10). More significantly, the number of employees and size of the labor force exceeds pre-recession levels, with 7.7 million employed among a labor force of 8.1 million in April 2016, versus 7.3 million employed among a labor force of 7.6 million in 2007. Employment growth is in large part attributable to heavy [in-migration](#). Florida has also attracted the largest numbers of baby boomers in the US, and as baby boomers retire in the state, the demand for increased labor to serve them has accelerated.

Further, the number of businesses⁹ grew across counties we rate by an aggregate 5.8% between 2010 and 2014, signaling increased activity in the production of goods and services.

Exhibit 10

Employment Continues Rising

Change in the number employed from 2010 through April 2016

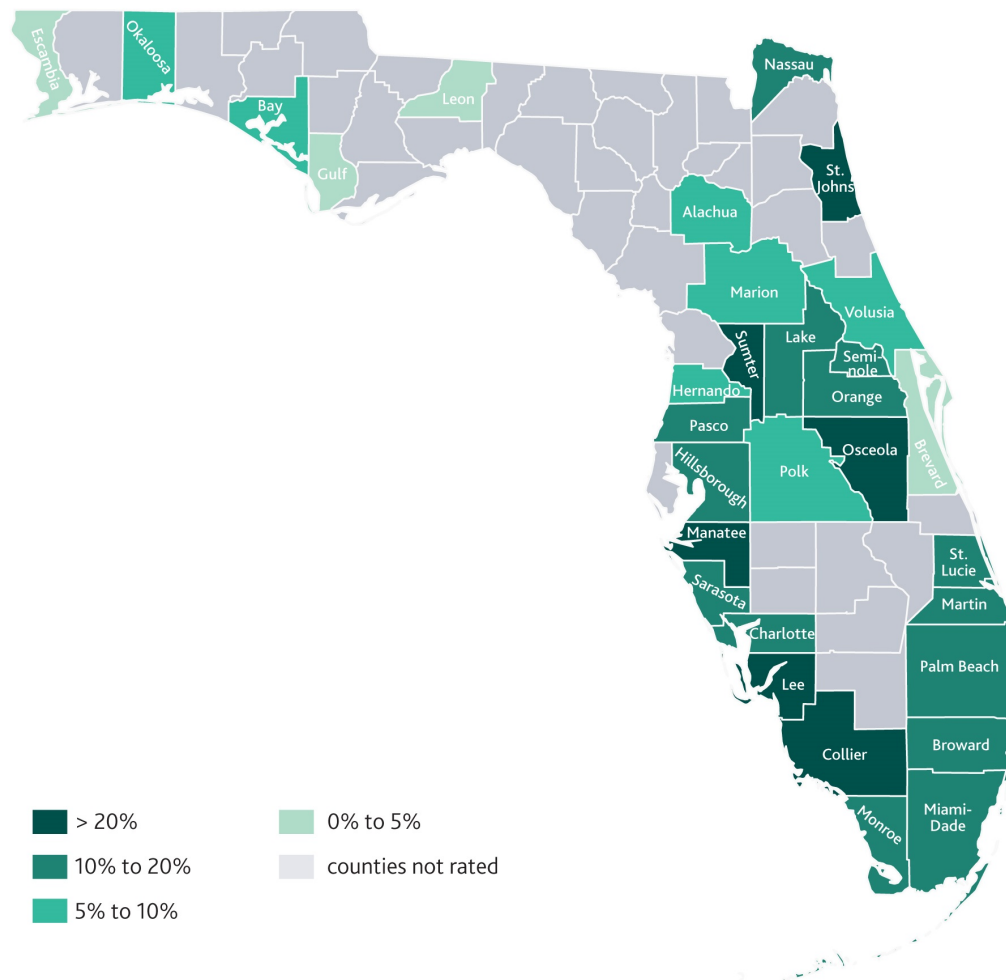


Exhibit covers 31 counties Moody's rates

Source: Bureau of Labor Statistics

The Florida Department of Economic Opportunity projects job growth across almost every sector between fiscal 2015-23 (see Exhibit 11). Large demand statewide for positions in construction (30.2% projected growth), education & health services (20.9%), professional and business services (16.4%) and leisure and hospitality (12.6%) will benefit the counties we rate, which comprise a large portion of the state's economy.

Exhibit 11

Jobs Set to Grow in Next Eight Years

Florida Jobs by Industry	Employment		2015 - 2023 Change	
	2015	2023	Total Employment	Percent
Agriculture, Forestry, Fishing and Hunting	75,020	71,160	-3,860	-5.1
Mining	4,105	4,359	254	6.2
Construction	419,826	546,778	126,952	30.2
Construction of Buildings	87,143	115,756	28,613	32.8
Heavy and Civil Engineering Construction	52,293	63,113	10,820	20.7
Specialty Trade Contractors	280,390	367,909	87,519	31.2
Manufacturing	332,129	338,158	6,029	1.8
Trade, Transportation, and Utilities	1,647,504	1,807,841	160,337	9.7
Utilities	21,871	22,007	136	0.6
Wholesale Trade	331,545	362,063	30,518	9.2
Retail Trade	1,059,840	1,170,883	111,043	10.5
Transportation and Warehousing	234,248	252,888	18,640	8.0
Information	137,039	137,582	543	0.4
Financial Activities	527,285	580,388	53,103	10.1
Finance and Insurance	353,511	385,589	32,078	9.1
Real Estate and Rental and Leasing	173,774	194,799	21,025	12.1
Professional and Business Services	1,190,607	1,386,074	195,467	16.4
Professional, Scientific, and Technical Services	494,534	587,861	93,327	18.9
Management of Companies and Enterprises	94,879	104,822	9,943	10.5
Administrative and Support and Waste Management	601,194	693,391	92,197	15.3
Education and Health Services	1,179,819	1,426,765	246,946	20.9
Educational Services	157,477	191,747	34,270	21.8
Health Care and Social Assistance	1,022,342	1,235,018	212,676	20.8
Leisure and Hospitality	1,112,709	1,253,872	141,163	12.7
Arts, Entertainment, and Recreation	213,795	241,914	28,119	13.2
Accommodation and Food Services	898,914	1,011,958	113,044	12.6
Other Services (Except Government)	334,385	370,069	35,684	10.7
Government	1,071,769	1,160,602	88,833	8.3
Federal Government	130,583	120,936	-9,647	-7.4
State Government	208,505	218,251	9,746	4.7
Local Government	732,681	821,415	88,734	12.1
Self-Employed and Unpaid Family Workers	601,889	649,662	47,773	7.9
Total, All Industries	8,634,086	9,733,310	1,099,224	12.7

Source: Florida Department of Economic Opportunity

Appendix - Moody's-Rated Florida County Securities

County	Senior Most Tax-Backed Public Rating	Security Type
Alachua	Aa2	Issuer Rating
Bay	Aa2	Issuer Rating
Brevard	A3	GO Limited Tax
Broward	Aaa	General Obligation
Charlotte	Aa2	Issuer Rating
Collier	Aa1	Issuer Rating
Escambia	Aa2	Issuer Rating
Gulf	Aa3	Issuer Rating
Hernando	Aa2	Issuer Rating
Hillsborough	Aaa	General Obligation
Lake	Aa3	Issuer Rating
Lee	Aa1	Issuer Rating
Leon	Aa2	Issuer Rating
Manatee	Aa2	Special Tax - Non-Ad Valorem
Marion	Aa3	Half-Cent Sales Tax
Martin	Aa2	General Obligation
Miami-Dade	Aa2	General Obligation
Monroe	A1	Infrastructure Sales Surtax
Nassau	Aa2	Issuer Rating
Okaloosa	Aa3	Issuer Rating
Orange	Aa2	Half-Cent Sales Tax
Osceola	Aa2	Issuer Rating
Palm Beach	Aaa	General Obligation
Pasco	Aa3	Half-Cent Sales Tax
Polk	Aa2	Issuer Rating
Sarasota	Aaa	Issuer Rating
Seminole	Aa1	Issuer Rating
St. Johns	Aa1	Issuer Rating
St. Lucie	Aa2	Issuer Rating
Sumter	Aa2	Issuer Rating
Volusia	Aa3	Half-Cent Sales Tax

Source: Moody's Investors Service

Moody's Related Research

Sector In-Depth

» [Puerto Rico's Pain is Orange County's Gain, November 2016](#)

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

Endnotes

- [1](#) Population figures based on the Florida Office of Population and Demographics April 2015 estimates.
- [2](#) Fiscal 2016 property values were released in July 2015, using calendar 2015 assessments.
- [3](#) Full value in Florida comprises the market value of real, personal and centrally assessed property.
- [4](#) Fiscal 2010-14 (fiscal 2014 data is the most recent)
- [5](#) All Florida county 2016 (fiscal 2017) preliminary assessed valuations are not currently available.
- [6](#) Visit Orlando
- [7](#) Tourist development tax, tourist impact tax and convention development tax
- [8](#) Measured as operating fund balance (includes available reserves in the general, debt service, and any special assessment funds) as a percent of revenues
- [9](#) Defined by the Census Bureau as entities where business is conducted and services or industrial operations are performed; data set: US Census, County Business Patterns, 2010-2014.

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