FitchRatings

Fitch Affirms Tampa, FL's IDR and Non AV Revs; Outlook Stable

Fitch Ratings-New York-09 August 2018: Fitch Ratings affirms the following ratings for Tampa, Florida's outstanding obligations:

--Non-ad valorem revenue bonds, series 2011, series 2015 and series 2016 at 'AA';
--Sales tax refunding and improvement revenue bonds, series 2010 and series 2016 at 'AA'.
--Utilities tax revenue bonds, series 1996, series 1997, series 2010A&B, and series 2012A, B &C bonds, at 'AA+';
--City of Tampa Issuer Default Rating (IDR) at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The non-ad valorem (NAV) revenue bonds are backed by the city's covenant to budget and appropriate NAV revenues sufficient to pay debt service. The NAV covenant shall be cumulative to the extent not paid and shall continue until such NAV revenues or other legally available funds are sufficient to make all such required payments under the bond resolution.

The sales tax bonds are payable by the city's share of a voter-approved one-half-cent sales tax called the local option community investment tax.

The utilities tax bonds are secured by a lien and pledge of the utilities services tax, a tax levied by the city on purchase of certain services, including electricity, metered or bottled gas, water service, and telecommunications services.

ANALYTICAL CONCLUSION

The 'AA+' rating reflects the city's solid revenue growth prospects and revenue raising ability, moderately low long-term liability burden and generally sound operating performance, supported by ample reserves. Fitch expects solid management of expenditures and maintenance of reserves in an amount that provides a high level of financial flexibility throughout the economic cycle in the context of the city's strong control over revenues and spending.

The 'AA' rating on the NAV bonds is one notch below the city's IDR based on the requirement for appropriation for debt service. Available NAV revenues are large and diverse, but there is no requirement for the city to raise revenues to pay debt service and essential services and any debt secured by specific NAV revenue must be paid before debt service on the NAV bonds.

The utilities tax bond rating of 'AA+' reflects strong coverage levels and likelihood for only moderate future leverage due the city's reliance on these revenues for operations.

The 'AA' rating on the sales tax bonds reflects solid growth prospects and Fitch's expectation for sound protection against cyclical declines.

Economic Resource Base
Tampa is situated on the west coast of Florida in Hillsborough County and serves as the county seat. Encompassing 116 square miles, the city is one of the largest in the state by population, with an estimated census population of over 385,000 which is up close to 15% since 2010.

The city serves as the economic hub of the region which encompasses a broad mix of activity, including MacDill Air Force Base and other governmental services, health and higher-education, and leisure and hospitality. The port of Tampa and Tampa International Airport boost the area's trade, transportation and utilities sector. Business and finance are also significant economic factors.

KEY RATING DRIVERS

Revenue Framework: 'aa'
The city has a diverse mix of revenues with the largest being property taxes and also include sales, utility related, and communication service taxes. Overall revenue growth has been strong the past five years as the economy has experienced rapid growth from new development, increases in property values, and impressive job growth. Fitch expects future growth to be solid based on continued development efforts, and corresponding job and population growth. The city has ample revenue generating capacity.

Expenditure Framework: 'aa'
Fitch expects the natural pace of spending will grow in line with revenue growth. The city retains significant ability to reduce expenditures through potential reductions in

non-essential services and capital spending and some flexibility on labor agreements. Fixed costs for debt service, pensions and OPEB are a moderate burden on the budget.

Long-Term Liability Burden: 'aaa'
The city's combined debt and net pension liability burden represents an estimated 9% of residents' personal income, which is at the high end of the metric for a 'aaa' category assessment. The burden is expected to remain close to this level based on the city's debt plans, rate of principal amortization and changes in personal income. Overlapping debt of the county and county school district represent roughly a third of the metric and are not expected to change materially. The city's pension plans are well funded but rely on what Fitch considers above-average interest rate assumptions.

Operating Performance: 'aaa'
Despite several consecutive years of planned fund balance drawdowns including during the economic recovery, the city's gap-closing capacity remains strong. Fitch expects management to maintain a high level of fundamental financial flexibility throughout the economic cycle by utilizing its solid expenditure flexibility and, if necessary, ample revenue raising capacity.

RATING SENSITIVITIES
Maintenance of Financial Flexibility: The IDR is sensitive to changes in Fitch's expectations that the city will maintain a high level of fundamental financial flexibility throughout the economic cycle through a combination of revenue and spending control and management of reserve levels.

Dedicated Tax Bonds: Dedicated tax ratings are sensitive to changes in expectations for pledged revenue performance and additional leverage. Fitch believes the current risk to a material shift in either of these is low.

CREDIT PROFILE

The local economy, hit hard by the recession, has experienced rapid growth the past six years. Job and labor growth have outpaced national levels and unemployment rates have improved since the Great Recession in line with the state and below the nation's rate. The city's taxable values have increased by over 53% since fiscal 2013 and exceed pre-recession levels. Fiscal 2019 values recorded a gain of almost 11% to $34 billion following a 10% gain in fiscal 2018.

Sizable residential and commercial activity signal vigorous local economic activity for the near and medium term. The construction of the University of South Florida's Medical School underway downtown is expected to be a primary anchor for the Water Street Tampa development, a reported $3 billion project. The project will include residential, office, and retail properties as well as a new 520-room Marriott Hotel. Tampa International Airport completed phase 1 of its approximately $950 million expansion and passenger traffic continues to see growth. Port Tampa Bay also has recently made investments in its facilities helping to drive investment and employment opportunities in the region.

Revenue Framework

Property taxes constitute the largest source of general fund revenue, accounting for around 42% of fiscal 2017 general fund revenues. Property tax revenues declined steadily between fiscals 2007 and 2013 due to a reduction in property tax rates in fiscals 2007 and 2008 and declining assessed values thereafter. With the upturn in assessments beginning in fiscal 2013, property tax revenues have resumed their growth trend. Other significant sources of revenue include service charges, licenses and permits, utility service taxes, and intergovernmental revenues (about 14% of total general fund revenues) consisting primarily of a half-cent sales tax and municipal revenue sharing.

Combined general fund and utilities tax service fund revenue growth over the past 10 years has been slow, affected by the severe recession and downturn in taxable values, as well as a property tax reform-induced 12% reduction in property tax rates between fiscals 2006 and 2008. Fitch expects the pace of revenue growth to outpace the very slow CAGR of the last 10 years (which incorporates the unusually high decline during the recessionary period) due to solid employment gains and the large number of projects planned or in development which will benefit the city's economic base. Fitch does not expect the next economic downturn to impact the city as severely as the last one.

The city has a very strong legal ability to generate additional revenues as the current property tax rate of 6.2076 mills is well below the statutory 10 mill cap. Annual changes in the property tax rate are determined using a roll-back or revenue neutral rate, which is then adjusted for changes in Florida per capita personal income. However, this limitation may be overridden by vote of the city council and is therefore in the city's independent legal control. The city also has the ability to increase various license and permit revenues and service charges that make up a smaller but still notable portion of its revenue base.

There is a pending amendment to the state constitution that would increase the homestead exemption if approved by voters, resulting in a city estimated general fund revenue loss of around $5 million in fiscal 2020 (less than 2% of budget). Passage of this amendment would not affect Fitch's view of the city's revenue growth prospects.

Expenditure Framework

The city provides a broad array of public services. Public safety is the largest general fund spending item, accounting for about two-thirds of general fund expenditures in fiscal 2017. Public safety spending was relatively stable through the recession and has recently grown with revenues and population. General government and culture and recreation spending are also significant expenditure items.

The natural pace of spending growth is expected to generally align with revenue growth over time. Drivers of governmental spending will continue to be related to personnel related expenses as well as operating and capital equipment spending on parks, public safety and facilities.

The city has solid spending flexibility. Carrying costs for debt, pension requirements and OPEB contributions are moderate at approximately 13% of total fiscal 2017 governmental expenditures. Debt service costs are scheduled to rise annually over the next three years before descending and pension costs are expected by Fitch to increase only moderately due to planned annual gradual reductions in the city's general employees' pension plan's discount rate of return by 10 basis points through fiscal 2023. Even with these changes, Fitch expects carrying costs to remain in the moderate range. Labor contracts provide management with the flexibility to reduce staff if necessary.

Long-Term Liability Burden

Long-term liabilities for debt and Fitch adjusted net pension liabilities represent a low 9% of personal income. Direct debt accounts for roughly 25% of the metric with county and school board overlapping debt accounting for an estimated 33%. Future city governmental borrowing needs are currently very manageable and not expected to impact the assessment. Fitch does not expect overlapping debt of the school and county to change materially from existing levels. Principal amortization of governmental debt is rapid with 76% of principal scheduled for retirement within the next 10 years.

City employees participate in one of two city-sponsored pension plans: the general employees retirement fund, which includes most employees, and the firefighters and police officers pension fund. Based on reported GASB 68 information in the city's

2017 CAFR, the estimated combined net pension liabilities for the plans were approximately $673 million (3.6% of personal income) based on a Fitch-adjusted 6% investment rate of return (IRR). The aggregate Fitch-adjusted assets to liabilities ratio was 79%. Recent valuation reports indicate improvement in net pension liabilities based on strong investment returns last year in excess of the general employees' plan's 7.9% IRR and police and fire plans' IRR of 8.5%.

Operating Performance
Beginning in fiscal 2010, the city has utilized a portion of its sizable reserves to offset declines in property tax revenues and ongoing spending pressures and maintained a constant property tax rate through fiscal 2017. The city combined its general and utilities services tax funds in fiscal 2016. Combined general and utilities tax fund deficits were reported in every fiscal year between fiscals 2010 and 2015, although the deficit narrowed considerably in fiscal 2015, and surplus results occurred in fiscal 2016.

Fiscal 2017 results reflect use of fund balance due to the impact of Hurricane Irma. The deficits have reduced the available general and utilities services tax fund balance from 48% of expenditures in fiscal 2010 to a still significant 25% ($113 million) at fiscal year-end 2017, providing the city with ample financial resilience throughout the economic cycle. The city has a minimum reserve fund balance policy of 20% of combined general and utilities tax services operating expenditures.

The city ended fiscal 2017 with a marginal operating surplus, net of costs related to Hurricane Irma, of approximately $1 million. Hurricane Irma brushed by the city in September 2017, and the city incurred approximately $14 million of related costs. The fiscal year-end results reflect the use of $4 million of assigned general fund balance for hurricane related costs. The city's unrestricted general fund balance was $113 million, or 25% of spending. The city expects to receive reimbursements from FEMA and the State of Florida totaling approximately $13 million of which the general fund would receive approximately $4 million and the unreimbursed amounts will be covered primarily by the city's enterprise funds.

For fiscal 2018, the city raised its tax millage by .475 mills to 6.2076, the first tax rate increase in over 25 years. The general fund budget of $397 million, up around 7% from the prior year, included a $21.2 million increase for public safety for a new fire station and emergency medical service support at MacDill Air Force base, as well as spending for parks, recreation and employee related salaries and benefits. Management is projecting a net operating surplus of approximately $1.3 million.

The fiscal 2019 budget is in preliminary stages but maintains the property tax rate and does not include the use of fund balance. The increase in the tax base helps support expenditure increases associated with personnel spending and contributions to increase fund balance by approximately $1.6 million.

Revenue Stream Sensitivity

SALES TAX BONDS
The sales tax consists of a 0.5% discretionary tax on all sales in Hillsborough County. The sales tax was approved by voters in 1996 to be used to acquire and construct public safety, transportation and educational infrastructure and a community stadium (Raymond James Stadium). The sales tax is collected by the Florida Department of Revenue and distributed back to the county and expires in 2026.

From proceeds of the sales tax, 25% is taken off the top for the Hillsborough County School Board, then a designated amount is allocated for Tampa Sports Authority and the rest is divided between the county, Tampa and two other municipalities based on population. Tampa's distributive share constitutes the pledged revenues for the bonds.

Current debt service coverage on MADS in fiscal 2021 is 1.8x from fiscal 2017 sales tax revenues of $18.7 million, and debt service is flat through 2026.

To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario) and the largest decline in revenues over the period covered by the revenue sensitivity analysis. Based on a 16-year pledged revenue history, Fitch's analytical sensitivity tool (FAST) generates a 5% scenario decline in sales tax revenues. The largest actual cumulative decline in historical revenues is a 19% decline from fiscal 2006-2010, reflecting sensitivity of sales tax revenues to the economic downturn and the historic housing bust in Florida.

Assuming issuance up to the 1.5x ABT, MADS would still be covered with a 33% drop from fiscal 2017 revenues, 7x the scenario results and 1.7x the largest actual revenue decline in the review period. Although the coverage cushion is low for the rating category, the historical results incorporate a housing bust that disproportionately affected the Florida economy to an extent that Fitch believes is unlikely to be repeated in the future. Fitch expects future growth trends to be solid based on significant growth in employment and up tempo development activity and population growth.

Sales tax distributions to the city have increased in each of the past seven fiscal years following four years of decline between fiscals 2006 and 2010. Fiscal 2017 distributions of $18.7 million represent peak collections.

UTILITIES TAX BONDS
With the retirement of the senior lien utility tax bonds in 2016, outstanding utility tax bonds move up to senior lien. As the taxed utilities include essential services such as electricity, telecommunications and water, collections are subject to changes in technology, demand or rates charged for those services, resulting in some volatility in revenues. Fitch expects revenue growth to be relatively flat primarily due to changes in consumer preferences and competition for telecommunication services. Coverage of MADS is ample at 2.7x based on fiscal 2017 revenues of $59 million.

FAST results indicate a 4% revenue scenario decline with the largest cumulative decline of 6.3% in fiscal 2011. The structure could withstand a 63% decline in utility tax revenues, or 15x the scenario output and 10x the largest decline based on FAST results. Fitch does not expect the city to leverage to the 1.25x ABT as utility tax revenues in excess of debt service are used to fund general operations; therefore, the rating assumes maintenance of coverage at well above the ABT level.

Issuing Entity Exposure

Fitch does not assume the pledged sales tax revenues would be considered 'special revenues' in a bankruptcy under Chapter 9. As such, the ratings on the sales tax revenue bonds are capped at the level of Tampa's 'AA+' IDR.

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Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018) (https://www.fitchratings.com/site/re/10024656)

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