

## CREDIT OPINION

31 March 2023



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## Palm Beach County, FL

### Update to credit analysis

#### Summary

[Palm Beach County, FL](#) (Aaa stable) benefits from a large and growing economy with strong full value per capita. While resident income lags national medians, this is due partly to the large number of retirees. The county's strong financial position is driven by prudent management and growing revenues. Leverage and fixed costs slightly exceed medians but are likely to remain manageable in the near term as the tax base continues to exhibit strong growth. Based on its coastal location the county faces above average environmental risk, particularly to hurricanes.

#### Credit strengths

- » Strong full value per capita
- » Strong financial position
- » Diverse and growing economy

#### Credit challenges

- » Leverage slightly exceeds medians
- » Resident income is somewhat depressed by retiree population

#### Rating outlook

The stable outlook reflects that prudent management will continue to grow fund balance and liquidity in line with budgetary growth and leverage will remain manageable.

#### Factors that could lead to an upgrade

- » N/A

#### Factors that could lead to a downgrade

- » Significant decline in financial position
- » Erosion of wealth and income levels
- » Substantial increase in leverage

## Key indicators

Exhibit 1

### Palm Beach (County of) FL

	2019	2020	2021	2022	Aaa Medians
<b>Economy</b>					
Resident income ratio (%)	92.2%	91.0%	90.8%	N/A	123.0%
Full Value (\$000)	\$264,466,089	\$277,387,971	\$288,458,150	\$308,512,079	\$55,178,323
Population	1,465,027	1,482,057	1,481,233	N/A	406,428
Full value per capita (\$)	\$180,520	\$187,164	\$194,742	N/A	\$134,157
Economic growth metric (%)	N/A	0.3%	0.7%	N/A	-0.2%
<b>Financial Performance</b>					
Revenue (\$000)	\$2,539,557	\$2,673,984	\$3,010,244	\$3,250,978	\$498,648
Available fund balance (\$000)	\$961,637	\$1,085,764	\$1,239,479	\$1,378,353	\$189,383
Net unrestricted cash (\$000)	\$2,074,945	\$2,446,332	\$2,749,390	\$3,202,154	\$343,404
Available fund balance ratio (%)	37.9%	40.6%	41.2%	42.4%	40.1%
Liquidity ratio (%)	81.7%	91.5%	91.3%	98.5%	70.0%
<b>Leverage</b>					
Debt (\$000)	\$943,458	\$947,154	\$935,933	\$861,763	\$387,256
Adjusted net pension liabilities (\$000)	\$5,030,505	\$6,570,003	\$4,857,941	\$3,786,956	\$525,310
Adjusted net OPEB liabilities (\$000)	\$427,053	\$437,969	\$417,666	\$338,399	\$85,473
Other long-term liabilities (\$000)	\$407,546	\$536,587	\$517,196	\$493,164	\$26,679
Long-term liabilities ratio (%)	268.1%	317.6%	223.5%	168.6%	206.0%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$75,752	\$68,787	\$67,828	\$65,646	\$26,487
Pension tread water contribution (\$000)	\$154,646	\$173,430	\$181,071	\$99,498	\$14,442
OPEB contributions (\$000)	\$12,094	\$15,891	\$16,933	\$18,553	\$2,786
Implied cost of other long-term liabilities (\$000)	\$27,845	\$29,714	\$38,426	\$36,276	\$1,585
Fixed-costs ratio (%)	10.6%	10.8%	10.1%	6.8%	8.8%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Miami-Fort Lauderdale-Pompano Beach, FL Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Palm Beach (County of) FL's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

## Profile

Palm Beach County is located on southern Florida's Atlantic coast. The county seat of West Palm Beach is approximately 70 miles north of Miami.

## Detailed credit considerations

### Economy

Palm Beach County will continue to benefit from its very large and expanding economy with significant tourism and retiree components. Economic growth in the region has exceeded the US in recent years. County management reports growth in bio sciences and financial services, including a new University of Florida campus for studies in financial services, financial technology, and artificial intelligence. Tourism has rebounded significantly from the pandemic with hotel tax revenues in fiscal 2022 up 44% compared to fiscal 2019. Approximately 24% of the county's population is over 65. Unemployment remains low at 2.2% in December 2022, compared to the state (2.2%) and nation (3.3%). While the county's resident income lags medians, full value per capita is very strong and exceeds the Aaa median, reflecting the large commercial presence and vacation homes.

### Financial operations

The county will likely maintain stable financial operations because of its strong financial management and expanding economy. County management has consistently produced operating surpluses, driven by strong property tax collections and conservative

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budgeting, which includes budgeting all revenues at a 95% collection rate. Approximately 90% of the county's total revenues are in governmental funds with the remainder from business activities, primarily the airport and water utility. Revenue growth has kept pace with expenditures and fund balance has increased in step.

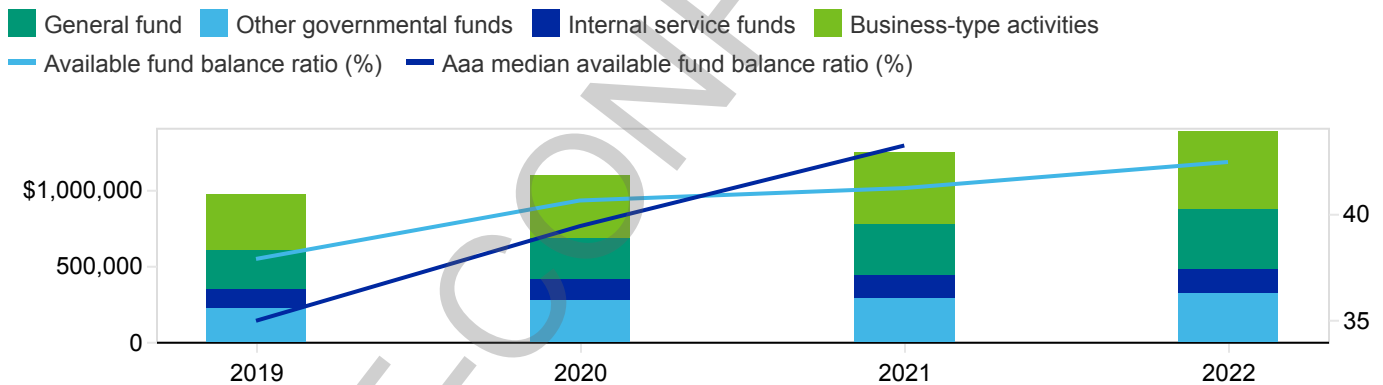
Fiscal 2022 ended with available fund balance of \$1.4 billion (42.4% of revenue) across all funds, an increase of \$139 million over the prior year. General fund revenues were \$79 million over budget driving surplus operations. The county also utilized \$244.3 million in ARPA funds for revenue replacement in fiscal 2022.

The fiscal 2023 general fund budget increased 13% over the fiscal 2022 budget driven by a 6% pay increase to maintain competitive salaries. Management reports that year-to-date revenues are above budget while expenditures are below budget.

The current level of non-ad valorem revenue will provide favorable repayment of non-ad valorem obligations. Fiscal 2022 gross available non-ad valorem revenue of \$528.3 million remain favorable in relation to the estimated \$46 million debt service on all non-self-supporting obligations. Over the next 10 years debt service on non-ad valorem debt declines.

Non-ad valorem revenue are used for everyday expenses that effectively compete with debt service requirements on non-self supporting obligations. While overleveraging of the covenant pledge could pressure operations if non-ad valorem debt service increases materially and available revenue (or property taxes) remain flat or decline, this outcome is not likely in the near-term, and county officials have used this financing mechanism prudently.

Exhibit 2  
Fund Balance

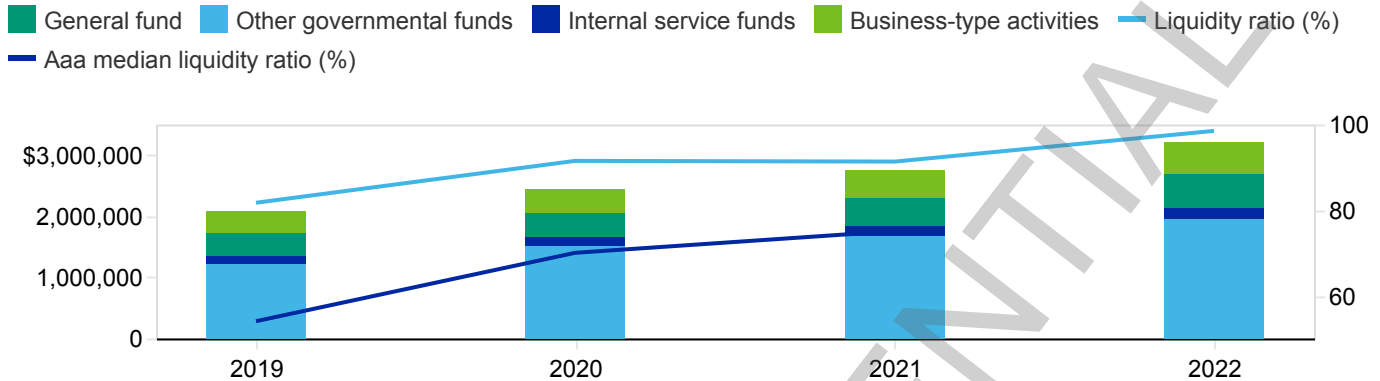


Source: Moody's Investors Service

**Liquidity**

The county's liquidity is quite strong with \$3.2 billion or 98.5% of revenues across all funds.

Exhibit 3  
Cash



Source: Moody's Investors Service

**Leverage**

The county's leverage will remain affordable given favorable debt service repayment, tax base growth, and limited additional borrowing plans. Post-issuance, the long term liabilities ratio will increase slightly to 172.6% of revenues, still below the Aaa median. Liabilities are primarily pensions (69% of total liabilities). Management continues to maintain a robust pay-as-you-go capital program to limit additional debt.

The county approves and appropriates for the capital budget annually and has appropriated \$522.3 million for fiscal 2022. \$106.8 million (20.4%) of the plan is financed through property taxes, followed by the infrastructure sales surtax \$98.5 million (19%), and \$115 million (22%) from airport revenues.

The total CIP for fiscal 2023-2027 totals \$1.9 billion and includes projects for the general government (43.5%), enterprise funds (18.6%), and the remaining for department specific projects including parks and recreation and fire safety. Funding sources are primarily property taxes, enterprise revenues, impact fees, and the infrastructure sales surtax.

Exhibit 4

**Total Primary Government - Long Term Liabilities**



Source: Moody's Investors Service

**Legal security**

The non-ad valorem obligations are secured by the county's covenant to budget and appropriate legally-available non-ad valorem revenue for bond repayment.

The non-ad valorem obligations include an anti-dilution test requiring the total amount of non-ad valorem revenue to be greater than two times the maximum debt service on all non-self supporting debt and obligations paid from non-ad valorem revenue, and in no year will the debt service on non-self supporting debt and obligations exceed 50% of total non-ad valorem revenue.

There is no monthly set-aside requirement, with funds due to the paying agent one day before debt service payment. The bonds do not carry a debt service reserve.

#### Debt structure

All of the county's debt is fixed rate and amortizes over the long term.

#### Debt-related derivatives

The county has no exposure to derivatives.

#### Pensions and OPEB

While pensions are somewhat high, modest debt keeps fixed costs manageable. The county participates in the state's Florida Retirement System, a defined-benefit, multi-employer plan.

As of fiscal 2022, the county's adjusted net pension liability (ANPL), based on a 4.44% discount rate, totaled \$3.7 billion. Comparatively, the GASB reported net pension liabilities, based on an average 6.58% discount rate, totaled \$1.6 billion.

Fixed costs are low compared to medians at 6.77% in fiscal 2022.

## ESG considerations

### Palm Beach (County of) FL's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 5

#### ESG Credit Impact Score

# CIS-3

## Moderately Negative

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

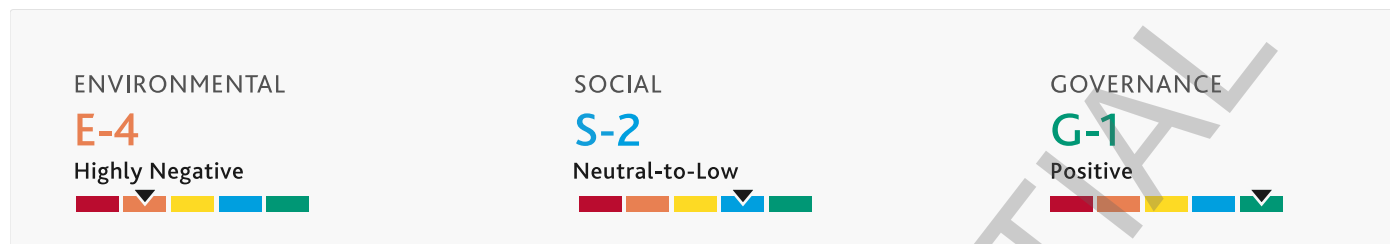


Source: Moody's Investors Service

Palm Beach County's ESG Credit Impact Score is a moderately negative (**CIS-3**) reflecting highly negative exposure to environmental risks that is partially mitigated by the area's extensive infrastructure development in part through regional planning initiatives, neutral to low exposure to social and positive governance considerations. The county also benefits from external financial and capital investment from other levels of government and other organizations to combat environmental challenges. These initiatives support the county's resilience and capacity to respond to external shocks.

Exhibit 6

## ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

Palm Beach Co's overall E issuer profile score is highly negative (**E-4**) reflecting significant exposure to physical climate risks, particularly hurricanes and heat stress. Risks across all other categories including water management, waste and pollution and natural capital is neutral to low. The county benefits from a regional approach through the Southeast Florida Regional Climate Change Compact and capital planning that guides ongoing infrastructure development. Additionally, the county has implemented policies that govern building codes and development, all targeted at increasing its resiliency. Absent these mitigating initiatives or if the county fails to continue pursuing similar initiatives, the E IPS score will weaken.

### Social

The county's S issuer profile score is neutral to low (**S-2**) reflecting neutral to low exposure to demographics and labor and income. Education, housing health and safety and access to basic services are also neutral to low risks.

### Governance

Palm Beach County's very strong governance profile supports its rating, as captured by a positive G issuer profile score (**G-1**), and reflects the strong institutional structure needed for a local government of this size and complexity. The county's demonstrated policy credibility and effectiveness and prudent budget management are also incorporated into the **G-1** issuer profile score. Transparency and disclosure practices are similar to peers.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 7

### Palm Beach (County of) FL

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	90.8%	10.0%	A
Full value per capita	273,007	10.0%	Aaa
Economic growth metric	0.7%	10.0%	Aaa
<b>Financial Performance</b>			
Available fund balance ratio	42.4%	20.0%	Aaa
Liquidity ratio	98.5%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	168.6%	20.0%	Aa
Fixed-costs ratio	6.8%	10.0%	Aaa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
<b>Assigned Rating</b>			<b>Aaa</b>

Sources: US Census Bureau, Palm Beach (County of) FL's financial statements and Moody's Investors Service

## Appendix

Exhibit 8

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service



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