West Melbourne, Florida

Full Rating Report

Ratings

Long-Term Issuer Default Rating[a] AA+

Outstanding Debt
Florida Municipal Loan Council (FL) (City of West Melbourne) Revenue Bonds[b] AA

[a]Upgraded from 'AA–' on Feb. 28, 2017.
[b]Upgraded from 'A+' on Feb. 28, 2017.

Rating Outlook

Stable

Related Research

Fitch Upgrades Florida Muni Loan Council's Revs (W. Melbourne) to 'AA' from 'A+' on Criteria Change (February 2017)

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Fitch Ratings' upgrade of West Melbourne's Issuer Default Rating (IDR) to 'AA+' from 'AA–' and the upgrade of its rating on the West Melbourne's non-ad valorem revenue bonds to 'AA' from 'A+' is based on the application of Fitch's revised criteria for U.S. tax-supported bonds, published on April 18, 2016. The upgrade of the ratings reflects the city's solid revenue growth prospects, high independent revenue-raising flexibility, solid control over expenditures, and ample gap-closing capacity. West Melbourne's credit quality also benefits from a low long-term liability burden and healthy fiscal reserves, which support the ratings at their new levels.

Key Rating Drivers

Economic Resource Base: West Melbourne is a city of approximately 21,000 residents located in Brevard County, FL. The city is notable for its rapid population growth and abundant available land, the latter of which is likely to support strong future growth. West Melbourne encompasses 10 square miles and is mainly residential. Major aerospace and defense companies including Northrop Grumman, Embraer, and Harris Corporation have a large presence just outside city limits, with operations in nearby Melbourne and unincorporated areas bordering the city. The local real estate market is healthy as evidenced by assessed valuation increases of over 7% in the past two years.

Revenue Framework: 'aaa' factor assessment. West Melbourne's natural rate of revenue expansion exceeded the rate of U.S. GDP growth during the decade through fiscal 2015 even when discounting the effect of limited policy actions by management to raise recurring revenues. Fitch believes the city's tax and fee revenues will grow in line with or above the rate of U.S. GDP due to a rising population and healthy regional economy. The city's independent legal ability to raise revenues is high.

Expenditure Framework: 'aa' factor assessment. The municipality's spending obligations will rise in line with revenues as growing demand for services and capital improvements go hand-in-hand with brisk population growth. West Melbourne retains ample spending flexibility as a result of its low carrying costs, which have averaged slightly below 10% of government spending in recent years. The city also retains a broad ability to rein in capital outlays in circumstances where expenditure restraint is needed to achieve budgetary structural balance.

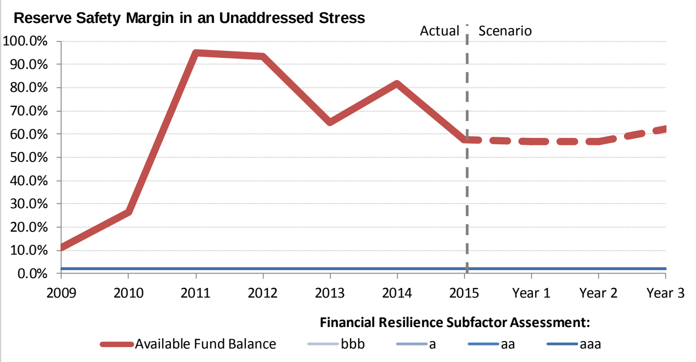
Long-Term Liability Burden: 'aaa' factor assessment. West Melbourne's long-term liability burden is very low. Long-term debt and unfunded pension liabilities equaled approximately 3% of personal income in 2015.

Operating Performance: 'aaa' factor assessment. Fitch considers West Melbourne's gap-closing capacity to be exceptionally strong given its broad independent revenue-raising flexibility and ample control over spending. Fitch expects the city's management team would be able to close periodic budget gaps with a combination of revenue-raising policy actions and spending restraint. Fiscal reserve balances are solid. The city has demonstrated superior budget management during the present recovery.

West Melbourne (FL)

Scenario Analysis

v. 1.10 2016/06/22



Analyst Interpretation of Scenario Results:

West Melbourne's financial resilience is strong. The city has considerable gap-closing capacity as evidenced by its virtually unconstrained ability to raise revenues within broad statutory limits along with management's solid control over spending. Management's freedom to adjust to revenue shortfalls by scaling back capital plans, reducing positions, and trimming the budget would enable the city to balance out the stresses associated with a modest US recession. When combined with policy action to raise revenues and the cushion provided by healthy fiscal reserves, it is likely that the city's fiscal flexibility would be barely affected by a modest U.S. downturn.

Fitch regards West Melbourne's inherent budget flexibility as superior in light of minimal constrains on the city's revenue-raising powers and its low fixed carrying costs. Historical revenue volatility is low. Fitch's Analytical Sensitivity Tool (FAST) calculates a prospective 1% drop in general fund revenues under a scenario associated with a 1% decline in US GDP. The FAST tool estimates that revenues would expand by a healthy 3.1% by the second year following the downturn after recording a slight drop in Year 1, and fiscal reserves would be barely affected by the mild recession.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.1%	7.0%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	9,091	9,620	9,211	9,476	9,669	10,587	13,857	13,718	14,149	15,146
% Change in Revenues	-	5.8%	(4.3%)	2.9%	2.0%	9.5%	30.9%	(1.0%)	3.1%	7.0%
Total Expenditures	9,063	8,436	8,099	8,942	8,991	8,985	13,450	13,719	13,993	14,273
% Change in Expenditures	-	(6.9%)	(4.0%)	10.4%	0.5%	(0.1%)	49.7%	2.0%	2.0%	2.0%
Transfers In and Other Sources	603	-	66	-	560	47	30	30	31	33
Transfers Out and Other Uses	1,344	-	-	-	-	-	-	-	-	-
Net Transfers	(741)	-	66	-	560	47	30	30	31	33
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(713)	1,184	1,178	534	1,238	1,649	437	29	187	906
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(6.9%)	14.0%	14.5%	6.0%	13.8%	18.4%	3.3%	0.2%	1.3%	6.3%
Unrestricted/Unreserved Fund Balance (General Fund)	1,178	2,228	7,709	8,363	5,853	7,331	7,750	7,779	7,966	8,872
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	1,178	2,228	7,709	8,363	5,853	7,331	7,750	7,779	7,966	8,872
Combined Available Fund Bal. (% of Expend. and Transfers Out)	11.3%	26.4%	95.2%	93.5%	65.1%	81.6%	57.6%	56.7%	56.9%	62.2%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History — IDR

Rating	Action	Outlook/ Watch	Date
AA+	Upgraded	Stable	2/28/17
AA–	Assigned	Stable	6/30/14

Rating History — Revenue Bonds

Rating	Action	Outlook/ Watch	Date
AA	Upgraded	Stable	2/28/17
A+	Assigned	Stable	8/5/10

Related Criteria
U.S. Tax-Supported Rating Criteria (April 2016)

Rating Sensitivities

Adverse Economic Events: The ratings are vulnerable to the knock-on impact of adverse economic events affecting the broader regional economy. Deeper than expected economic downturns, or the closure or movement of major employers, could affect the city's revenue growth prospects and lead to downward pressure on its ratings.

Credit Profile

West Melbourne is located in Brevard County in south Florida along a stretch of Atlantic coastline known officially as Florida's "Space Coast" due to the presence of the Kennedy Space Center and Cape Canaveral, the principal vehicle launch sites for the U.S. space program. Unsurprisingly, the area is home to a high concentration of aerospace and defense contractors given the substantial U.S. government presence and NASA's history in the region. The cancellation of NASA's U.S. space shuttle program in 2011 has not had an appreciable negative effect on the region's economy as major aerospace firms such as Brazil's Embraer continue to add jobs and expand their facilities in the county.

West Melbourne was formed in 1959 to prevent the neighboring city of Melbourne from annexing unincorporated land and levying property taxes. The city is distinguished by rapid population growth due to its abundant supply of developable land. West Melbourne's population grew 87% between 2000 and 2010 from 9,824 to 18,355, making it the fastest-growing city in Florida by population in that decade. Despite the impact of the previous recession, population has continued to grow at a rapid clip, rising another 13% to 20,679 in 2015. City officials report continued residential development.

The residential tax base is resilient. Despite the severity of the property market downturn in south Florida during the last recession, the city's assessed valuation (AV) declined by only 15% as the result of a 2011 annual property reassessment that captured the impact of market value declines. The tax base soon recovered, with taxable AV up by 16% in 2014 alone and subsequently rising by 8% in 2015. Resident wealth levels are slightly above average.

Revenue Framework

The general fund is West Melbourne's largest governmental fund. General fund revenues accounted for 97% of fiscal 2015 governmental fund revenues. Property taxes made up 17% of the city's governmental fund revenues in 2015. Utility taxes and franchise fees accounted for 34% of revenues, intergovernmental revenues for 33%, miscellaneous revenues for 3%, service charges for 4%, and fines and forfeitures for 1% in 2015. The city's receipt of a $2.5 million state grant in 2015 artificially increased the proportion of city revenues originating with the state of Florida. In more typical years, state intergovernmental revenues account for roughly 20% of revenues largely composed of the city's share of the local government one-half cent sales tax. Property taxes typically account for 20% of revenues.

Fitch believes West Melbourne's revenue growth prospects to be strong. The city's 10-year compound annual growth rate (CAGR) for revenues was 7.5% from fiscal 2005 through fiscal 2015 — well above the U.S. GDP growth rate (3%) for the same period. The strong pace of revenue expansion largely reflects natural growth factors rather than policy action by local officials. Prior to a one-time rise in intergovernmental transfers in fiscal 2015, the 10-year CAGR was 5%, still above the 10-year U.S. GDP growth rate.

Two property tax millage increases were included in the period in question, but had a modestly expansionary effect on revenues as property taxes typically account for less than 25% of revenues. Given the ongoing pace of population growth, ample undeveloped land, and the close proximity of the Space Coast's aerospace and defense industry employers, Fitch believes West Melbourne's future revenue growth rate is likely to be in line with, to above, the natural pace of U.S. economic expansion.

West Melbourne's independent legal ability to raise operating revenues without external approval is high. The city's operating millage rate of 2.385 mills in fiscal 2015 was well below Florida's statutory maximum of 10 mills, providing the city with ample revenue-raising ability. In addition, while the city operates under the state's statutory 10% cap on annual tax levy increases, this restriction leaves the city with substantial leeway to increase taxes year-over-year to close budget gaps and fund services. When considered with the city's ability to raise its water fees along with its other service charges, fines, and fees, Fitch concludes that the city's revenue-raising ability is substantial.

Expenditure Framework

The city's main areas of spending responsibility include public safety (i.e. police and building inspection), general government, public works, and culture and recreation. In fiscal 2014, public safety consumed 49% of government spending, general government 16%, capital spending 14%, public works 11%, and culture and recreation accounted for 6% of spending. The proportion of spending by category shifted dramatically in fiscal 2015 as the result of West Melbourne's receipt of $2.5 million in grant moneys from the state (the city's fiscal 2015 general fund budget totaled $14 million). Therefore, Fitch believes fiscal 2014's spending category breakdown represents a more typical expenditure profile for the city.

Expenditure growth is likely to stay in line with, to slightly above, the natural rate of revenue expansion in the absence of policy action. Fitch expects that a rapidly growing population and demand for capital improvements will result in higher levels of spending to fund expanded service offerings and improve infrastructure. However, Fitch also believes that spending will track closely with what Fitch expects to be a solid pattern of revenue growth.

West Melbourne's expenditure flexibility is solid in light of the city's generally low carrying costs, which have averaged slightly below 10% of governmental expenditures since fiscal 2012, and substantial cash-funded capital program. Fitch expects management would curtail or defer capital spending in order to maintain budgetary balance during a period of revenue stress. Fixed carrying costs for debt service, annual pension contributions, and other post-employment benefits (OPEB) totaled 9% of government spending in fiscal 2014, which Fitch regards as indicative of West Melbourne's broader spending patterns. Capital outlays from the general fund totaled nearly $750,000 in fiscal 2014 (or 8% of spending) and swelled to over $2.5 million in fiscal 2015 due to the receipt of state grant moneys.

The city has 111 full-time employees, of whom only 35 belong to an organized bargaining unit. The city's sole municipal union is for police officers. This bargaining unit was formed post the 2009 recession. Management reports that wage and benefit increases for police have been in line with those for non-unionized employees. Salaries and benefits have grown at roughly the rate of inflation during the present recovery. Management has complete flexibility in adjusting head count, but would have to wait until an existing police contract ended to bargain for work rules and wages, as contracts typically do not contain re-openers. Under Florida law, a bargaining impasse is ultimately resolved by action of the local government's governing body following the conclusion of a non-binding mediation process.

Long-Term Liability Burden

West Melbourne's long-term liability burden, which is made up of both direct and overlapping debt obligations along with its unfunded pension liabilities, is low at approximately 3% of resident income in fiscal 2015. The bulk of the city's direct debt burden of $16.2 million is composed of self-supporting water and sewer debt, leaving net direct debt of only $3.8 million. The city is responsible for a proportionate share of county, school district, and recreation district debt, but this share amounts to a modest $17.5 million of overlapping debt. Unfunded pension liabilities accounted for $4.8 million of additional long-term liability. Fitch regards the city's long-term liabilities as very low. Amortization of the city's outstanding direct debt is rapid, with 83% of principal retired in 10 years.

City employees participate in one of two pension plans. General employees participate in the state-administered multiple-employer defined benefit plan, the Florida Retirement System (FRS). As of July 1, 2015, the FRS had a Fitch-adjusted assets-to-liabilities ratio of 81% using Fitch's 7% discount rate assumption. The plan's official asset-to-liabilities ratio as per its 2015 actuarial report was 87%. Members of West Melbourne's police force participate in the city police pension plan. West Melbourne has made significant progress in improving the assets-to-liabilities ratio of the plan, the funded status of which has improved notably from 48% on October 1, 2009, using Fitch's 7% discount rate assumption, to 84% on Oct. 1, 2015.

The marked improvement in the police plan's assets-to-liabilities ratio is the result of management's determination to improve plan funding by contributing more than 100% of the plan's actuarially determined contributions each year. In fiscal 2015, the city contributed 173% of the required contribution. As of October 1, 2016, the actuarial assets-to-liabilities ratio for the plan (not adjusted by Fitch) was 89% using the plan's official 7.1% discount rate.

Operating Performance

West Melbourne's financial resilience is strong. For details, see "Scenario Analysis" on page 2.

Fitch views West Melbourne's budget management during the current recovery as very strong. The city has pursued the maintenance of fiscal flexibility consistently, replenishing the modest draw on reserves occasioned by the last U.S. recession. Management has proceeded to build general fund reserves in line with budgetary expansion and has raised total fiscal reserves to robust levels: $7.7 million, equal to 58% of general fund spending in fiscal 2015. The city's formal fund balance policy is to maintain general fund reserves at 20% of expenditures. In addition to maintaining strong reserves, the city has kept up with required capital spending and has, in fact, over-funded its required contributions to employee pensions. The city's OPEB obligation is an implied subsidy which consumes less than 1% of spending annually.

The city's fiscal 2016 budget was balanced with $1.6 million of general fund balance in anticipation of significant pay-as-you-go capital spending during the course of the fiscal year. Projects completed by the city in 2016 included new drains for the public parks, the purchase of enterprise management software, and completion of a new public works facility. Management estimates that the city concluded the 2016 fiscal year (Sept. 30, 2016 year-end) with a $500,000 general fund operating surplus due to under-spending of appropriations — management estimates only 94% of appropriations were spent — and revenues that totaled 107% of budget due to above-budget license and permits fees.

The fiscal 2017 budget grew by 18% over the fiscal 2016 budget due to management's continued ambitious capital plans that include renovations to West Melbourne's largest public park and expansion of the police station. The city has received a $1.05 million state grant to support the park renovations. Management anticipates a slight draw on general fund balance in fiscal 2017 to fund capital.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.