Nassau County, Florida

Full Rating Report

Ratings

Long-Term Issuer Default Rating	AA–
Outstanding Debt	
Public Improvement Revenue and Refunding Bonds	A+

Rating Outlook

Stable

Analytical Conclusion: The 'AA–' Issuer Default Rating (IDR) reflects Nassau County's superior financial resilience and low long-term liability burden. Concerns over stagnant revenue growth are somewhat offset by the high level of independent ability to raise revenues and solid expenditure flexibility. The 'A+' non-ad valorem revenue (NAV) rating is based on the NAV covenant and the county's long-term credit quality. Fitch rates NAV debt comparable to appropriation-backed obligations given the absence of a pledge of specific revenue and inability to compel the county to generate NAV revenue sufficient to pay bondholders.

Key Rating Drivers

Economic Resource Base: Nassau County is the northeastern-most county in Florida. Located just north of the city of Jacksonville ('AA' IDR; Outlook Stable) along the Atlantic coast, the county had a population of 80,622 as of 2016.

Revenue Framework: 'a' factor assessment. Revenue growth has been stagnant, but independent legal ability to raise revenues is high.

Expenditure Framework: 'aa' factor assessment. The natural pace of expenditure growth will likely remain above that of revenues, given expected limited revenue growth and moderate spending pressures. Flexibility to cut spending is solid with a favorable work force environment and fixed carrying costs for debt service and post-retirement obligations amounting to a moderate 10% of spending.

Long-Term Liability Burden: 'aaa' factor assessment. The long-term liability burden is low relative to the resource base.

Operating Performance: 'aaa' factor assessment. Gap-closing capacity is exceptionally strong. Fitch expects the county to manage throughout economic cycles while maintaining a high level of fundamental financial flexibility.

Rating Sensitivities

Growth Prospects for Revenues: An economic shift resulting in a material change in Fitch's expectations for revenue growth could cause the ratings to change.

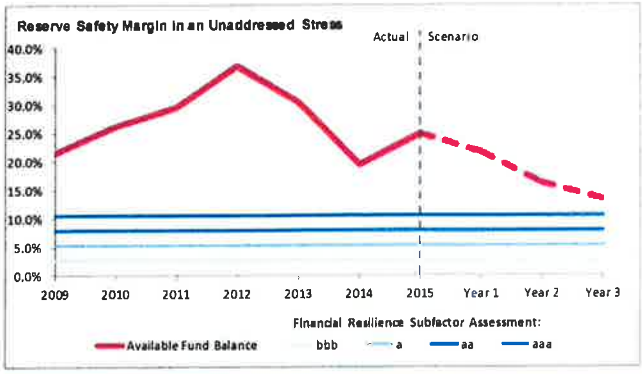
Analysts
Arlene Bohner
+1 212 908-0554
arlene.bohner@fitchratings.com

Michael Rinaldi
+1 212 908-0833
michael.rinaldi@fitchratings.com

Nassau County (FL)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Gap-closing ability is exceptional, given the county's superior budgetary flexibility and reserve levels which are solid relative to the elevated expected revenue volatility in a moderate economic downturn. Unrestricted general fund reserves amounted to 25% of spending in fiscal 2015. The Fitch Analytical Sensitivity Tool (FAST) generates a potential revenue decline of 5.3% in a 1% national GDP decline scenario, based on the county's historical revenue performance.

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)	(5.3%)	(0.4%)	4.6%
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	46,777	44,697	41,586	43,978	38,791	39,993	48,725	46,141	45,971	48,070
% Change in Revenues	-	(4.4%)	(7.0%)	5.8%	(11.8%)	3.1%	21.8%	(5.3%)	(0.4%)	4.6%
Total Expenditures	45,187	45,045	43,243	43,668	45,034	46,617	51,384	52,411	53,459	54,529
% Change in Expenditures	-	(0.3%)	(4.0%)	1.0%	3.1%	3.5%	10.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	4,477	4,646	7,345	5,695	5,861	5,478	7,906	7,486	7,459	7,799
Transfers Out and Other Uses	4,704	2,737	3,948	2,975	2,383	2,594	2,633	2,686	2,740	2,794
Net Transfers	(227)	1,910	3,396	2,720	3,478	2,884	5,272	4,801	4,719	5,005
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	1,363	1,562	1,739	3,030	(2,766)	(3,740)	2,613	(1,469)	(2,769)	(1,453)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	2.7%	3.3%	3.7%	6.5%	(5.8%)	(7.6%)	4.8%	(2.7%)	(4.9%)	(2.5%)
Unrestricted/Unreserved Fund Balance (General Fund)	10,826	12,618	14,044	17,235	14,542	9,647	13,477	12,008	9,239	7,786
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	10,826	12,618	14,044	17,235	14,542	9,647	13,477	12,008	9,239	7,786
Combined Available Fund Bal. (% of Expend. and Transfers Out)	21.7%	26.4%	29.8%	37.0%	30.7%	19.6%	25.0%	21.8%	16.4%	13.6%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	84.8%	42.4%	26.5%	15.9%	10.6%
Reserve Safety Margin (aa)	63.6%	31.8%	21.2%	13.3%	8.0%
Reserve Safety Margin (a)	42.4%	21.2%	13.3%	8.0%	5.3%
Reserve Safety Margin (bbb)	15.9%	10.6%	8.0%	5.3%	2.7%

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/ Review	Outlook/ Watch	Date
AA–	Review[a]	Stable	4/13/17
AA–	Assigned	Stable	11/17/11

[a]No rating action.

Credit Profile

The county's location along the Atlantic Ocean, directly north of Jacksonville, has fostered a significant tourism industry. Amelia Island and Fernandina Beach tourism represents an important component of the local economy. Inland, the county's economy is focused mainly on healthcare and paper manufacturing. Additionally, many of the county's residents commute to other employment opportunities throughout the Jacksonville MSA.

Countywide income levels are somewhat above state and comparable to national averages. Population, labor force and employment are all growing. Unemployment trends within the county are cyclical, which is typical of a tourism-based economy, but have consistently remained below state and U.S. averages.

Revenue Framework

The adopted fiscal 2017 general fund budget is roughly $51 million. Ad valorem taxes are the dominant funding source at more than 80% of total revenue followed by a half-cent sales tax and state revenue sharing receipts at 9% and 2%, respectively.

General fund revenues have been fairly stagnant, increasing at a 10-year CAGR of less than 1% through fiscal 2015 despite an 18% increase in the general county rate to 6.567 mills in fiscal 2015, which spearheaded a near 22% annual increase in general fund revenue. The county's tax base experienced six straight years of decline and an aggregate loss of roughly 26% from fiscal years 2009–2014 before posting gains of 4%–5% in the past three fiscal years. Fitch believes the county's tax base will remain fairly volatile over time given limitations inherent in the local economy.

The county has considerable legal revenue-raising authority relative to potential revenue stresses in a normal cyclical downturn. The non-voted countywide millage rate adopted for fiscal 2017 was 6.567 mills compared to a statutory limit of 10 mills. Annual changes in the millage rate are determined using a rolled-back or revenue neutral rate adjusted for changes in the Florida per capita personal income; however, this limitation may be overridden by a vote of the county governing body. Fitch estimates the county can generate almost $20 million in additional property tax revenue under the statutory cap, or roughly 40% of the fiscal 2017 general fund budget.

Expenditure Framework

Public safety spending accounted for the largest percentage (49%) of fiscal 2015 general fund expenditures, followed by general government at 30% and capital outlay at 12%.

The natural pace of expenditure growth is likely to exceed that of revenues, given the stagnant growth prospects for revenue absent policy action and labor contracts that include moderate step or salary increases of 2.5%.

Expenditure flexibility is solid. Carrying costs for debt service and post-employment benefits are moderate at 10% of fiscal 2015 spending and should remain so given limited future borrowing plans and adequately funded pensions. Employee salaries and benefits are the largest component of the general fund budget. Employment terms are negotiated with two labor groups covering general employees and firefighters, with contracts in place through fiscal 2019. Under Florida law, impasse resolution occurs through action of the governing body of the municipality following the conclusion of a non-binding mediation process.

Related Criteria

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

Long-Term Liability Burden

The county's long-term liability burden is extremely low at approximately 2% of personal income. Fitch would expect the metric to remain comfortably within the 'aaa' range in the foreseeable future. The adopted capital plan for fiscal years 2017–2021 identifies approximately $25 million in general government projects (excluding utilities). The county plans to fund the capital program largely from impact fees; new debt is not included in the five-year plan. The other major component of the liability burden is related to the county's participation in the state pension plan, the Florida Retirement System, which had a fiduciary net position to total pension liability ratio (Fitch-adjusted) of 80% as of the July 1, 2016 measurement date.

Operating Performance

Gap-closing ability is exceptional, given the county's superior budgetary flexibility and reserve levels, which are solid relative to the elevated expected revenue volatility in a moderate economic downturn. For details, see Scenario Analysis, page 2.

General fund revenues declined markedly during and after the Great Recession. A significant millage increase in fiscal 2015 restored structural balance, contributing toward the first net general fund operating surplus in three years. The county has increased the amount of pay-as-you-go capital spending in the operating budget and has consistently funded its pensions on an actuarial basis.

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