



VILLAGE OF KEY BISCAYNE

Office of the Village Manager

MEMORANDUM

Village Council
Franklin H. Caplan, *Mayor*
Michael E. Kelly, *Vice Mayor*
Michael W. Davey
Enrique Garcia
Robert Gusman
Mayra P. Lindsay
James S. Taintor

Village Manager
Genaro "Chip" Iglesias

DATE: April 12, 2011
TO: Honorable Mayor and Members of the Village Council
FROM: Genaro "Chip" Iglesias, Village Manager
RE: Standard and Poor's Credit Rating

BACKGROUND

Standard and Poor's, a credit rating agency, has re-evaluated the Village's credit rating and has raised it to a "AA" from "AA-" and they state, "...based on our opinion of the village's history of maintaining a very strong financial position despite the economic downturn. The outlook is stable." The last rating from S & P for the village was on December 15, 2006 which it established the "AA-" Other comments that supported the upgrade of the rating were in the area of budget surpluses, which S & P states it is reflective of stable financial performance, strong general fund balances and reserves. The village's management practices received a "good" assessment and the outlook will remain stable, as S & P notes, "... Because we believe the village will likely maintain consistently strong reserve levels." They do not expect to revise the rating for a two-year period given the "Stable" outlook. This upgrade would provide for better interest rates in the event the village obtains bond financing.

I wanted to share this very positive news, more so during such trying economic times, given that a good number of governmental entities are being downgraded. This is a testament to the collaborative efforts of residents, Council, and village staff and the commitment to practices that lead to sound financial management. This comes with hard choices, discipline, and sacrifice from all. The work must continue to be able to navigate through the continued challenges and more difficult decisions will need to be made. I thank everyone for their efforts during the most difficult period since the Great Depression.

March 24, 2011

Summary:

**Key Biscayne, Florida; General
Obligation**

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Key Biscayne, Florida; General Obligation

Credit Profile

Key Biscayne Vill ICR

Long Term Rating

AA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services has raised its issuer credit rating (ICR) on the village of Key Biscayne, Fla. to 'AA' from 'AA-' based on our opinion of the village's history of maintaining a very strong financial position despite the economic downturn. The outlook is stable.

The 'AA' ICR also reflects our view of the village's:

- Participation in the Miami-Fort Lauderdale metropolitan area;
- Very strong income and extremely strong wealth indicators;
- Good financial performance resulting in a very strong financial position; and
- Low debt burden on market value basis.

In our view, these credit strengths are partially offset by the village's above-average debt service carrying charge and the tax base experiencing year-over-year decreases.

Key Biscayne Village, a barrier island, is seven miles from downtown Miami, Fla. and about 15 miles from Miami International Airport. The village's population is roughly 10,200, which is a 3% decrease from the 2000 census. The Miami-Dade county unemployment rate was above average at 12.0% in January 2011 (preliminary). We believe the village's income levels are very strong with median household effective buying income (EBI) at 197% and per capita EBI at 241% of the national average.

Like much of the state, the village's taxable assessed value (AV) has contracted. The fiscal 2011 AV was \$5.4 billion, having declined by 7.3% on year-over-year basis in fiscal 2009, 2.4% in fiscal 2010 and 6.3% in fiscal 2011. Despite the negative trends, the market value per capita, in our opinion, remains extremely strong at approximately \$530,000.

Key Biscayne produced general fund surpluses in each of the past five fiscal years, which we believe is reflective of stable financial performance. It closed fiscal 2009 with a \$12.3 million total general fund balance, which we consider very strong at 51.2% of expenditures. Management expects to close fiscal 2010 with another surplus of approximately \$1.4 million. The village, by its charter, cannot have an unreserved general fund balance. The general fund reserved fund balance includes a \$4.0 million emergency reserve setup by the village council in the aftermath of Hurricane Andrew and \$2.0 million working capital reserve. The general fund cash and cash equivalents totaled \$8.0 million at fiscal year-end 2009, which represents 121 days' general fund expenditures.

We consider the village's management practices "good" under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

We consider the village's overall net debt burden low at 0.6% of the 2011 market value and a moderate \$2,950 per capita. Carrying charges for fiscal 2009 were moderate, in our view, at 14.3% of the total governmental fund expenditure. We understand that the management has no plans to issue debt in next two to three years.

Key Biscayne maintains pension plan for police officers and firefighters, which is administered by a third party. Management reports that the village contributed 100% of its annual pension cost for the fund in fiscal 2010. The pension plan has an unfunded actuarial accrued liability of \$5.4 million and was 66.6% funded as of Oct. 1, 2008.

Outlook

We do not expect to revise the rating within the two-year parameter of the stable outlook because we believe the village will likely maintain consistently strong reserve levels.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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