STANDARD & POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

Jacksonville, Florida; General Obligation; Miscellaneous Tax

Primary Credit Analyst:
Hilary A Sutton, New York (1) 212-438-7093; hilary.sutton@standardandpoors.com

Secondary Contact:
Le T Quach, New York (1) 212-438-5544; le.quach@standardandpoors.com

Table Of Contents

Summary:

Jacksonville, Florida; General Obligation; Miscellaneous Tax

Credit Profile		
US$36.605 mil taxable spl rev rfdg ser 2013B due 10/01/2025		
Long Term Rating	AA-/Stable	New
US$34.175 mil spl rev rfdg bnds ser 2013A due 10/01/2030		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to Jacksonville, Fla.'s series 2013A and 2013B special revenue refunding bonds. Standard & Poor's also affirmed its 'AA-' long-term rating on the city's parity debt outstanding and its 'AA' issuer credit rating (ICR) on the city. The outlook is stable.

The 'AA' ICR reflects our opinion of the following factors:

- An economy that has historically performed well and, unlike a number of Florida municipalities and counties, does not depend on tourism as a major revenue generator;
- Strong historical financial performance that is reinforced by strong long-term financial planning and forecasting; and
- A moderate debt burden.

A still-soft local economy and weakened tax base offset the above factors as does the city's underfunded pension system.

The city pledges to budget and appropriate non-ad valorem revenues to pay the bonds' debt service. There is no debt service reserve.

We understand the city will use series 2013A proceeds to refund certain maturities of the series 2005A and 2006A excise tax revenue bonds, and series 2013B proceeds to refund series 2009A special revenue bonds and finance the acquisition of the Jake M. Godbold City Hall Annex.

Jacksonville, which serves as a combined city and county, is the largest city in Florida in terms of population and square mileage: Its population is roughly 830,000 and it covers about 840 square miles. The city's economic indicators deteriorated significantly during the recent recession but appear to be moderating. The fiscal 2013 taxable assessed value (AV) totaled $43.7 billion, having declined 7.1% year-over-year in 2011, 7.1% in 2012, and 4.8% in 2013. City officials report an increase in construction activity and, as a result, do not expect AV to continue to decline beyond fiscal 2014. Unemployment is on the decline: It averaged 10.2% in 2011, 8.6% in 2012, and 6.7% in April 2013. Median household effective buying income is, in our view, a good 97% of the national average.

Jacksonville serves as a major financial, health care, transportation, government, and recreation center for northeastern Florida. Economic activity, however, somewhat depends on the government sector, which accounts for about 12% of the employment base, including the second-largest U.S. Navy complex on the East Coast. We believe federal sequestration is likely to affect the economy due to its strong link to military employment, but city management believes the effect on Jacksonville will be minimal. We will continue to monitor the effects of the sequester on the city.

Jacksonville's recent financial performance has been strong despite a softening in economically sensitive revenues. The city has made significant budget cuts in each of the past two fiscal years - lowering total general fund expenditures to $824 million in fiscal 2012, from $868 million in 2010 largely through wage reductions and increased employee health care contributions - that have contributed to year-end surpluses. Audited results for fiscal 2012 (Sept. 30 year-end) show a $21.2 million general fund surplus with property taxes serving as the leading source of revenue (47% of the total) followed by intergovernmental and utility service taxes (13% apiece). The year-end total available balance was $75 million, which was a strong 9.1% of expenditures. Not included in this amount was the city's $70 million committed general fund balance, which includes its emergency reserve of $48 million that we believe adds financial flexibility.

The fiscal 2013 budget included a constant tax rate of 10 mills. Unable to keep pace with rising pension and health care costs, the city reduced its workforce by 540 positions to balance the budget. Officials expect to close fiscal 2013 with a $5 million general fund surplus due, in large part, to vacancies and debt service savings related to refundings. The tentative budget for fiscal 2014 shows a $64 million gap assuming no savings related to proposed pension reform. Management reports the city is prepared to close this gap through wide-ranging layoffs. Should pension reform be achieved, then the gap is narrowed to what management deems is a more-manageable $19 million. Rating stability will largely depend on management's actions to close the projected gaps. We believe Jacksonville has, in the past, been proactive in identifying expenditure reductions, and we expect this trend to continue.

Standard & Poor's has assigned Jacksonville a Financial Management Assessment score of "strong", indicating that we believe practices are strong, well embedded, and likely sustainable. Included in the assessment are what we view as well-developed financial forecasting, budgeting, investing, and capital plans that the governing body frequently monitors and reviews.

The city's overall debt is moderate at $3,400 per capita, or 3.8% of market value. The debt service carrying charge is 14.8% of expenditures, which we consider moderate. Management has historically financed the city's capital needs through borrowings secured by excise taxes, local option one-half-cent sales taxes, a two-cent gas tax, and state entitlement revenues. The city has also funded portions of its capital needs from operations.

The city offers the following pension programs: General Employee Pension Program, Corrections Officers Pension Plan, and Police and Fire Pension Plan. The plans are 62%, 44%, and 43% funded, respectively, which we consider below average. The city is pursuing reform initiatives to lower these liabilities and has taken a more conservative approach on the asset side by lowering the return assumptions. While not final, the city has reached tentative agreements with several bargaining units that change the benefit structure for future employees and require increased contributions from current employees. The city does not offer other postemployment benefits (OPEB) but it does allow retirees to participate in its health insurance plan and pay the full premium associated with elected coverage levels. As a result of this access, Jacksonville is deemed to have an implicit rate subsidy and is therefore required to calculate an

OPEB liability. The OPEB liability, as of the most recent actuarial valuation on Sept. 30, 2012, was $126 million and entirely unfunded. The city's pension annual required contribution represented 14% of fiscal 2012 total governmental expenditures.

The city currently has three series of variable-rate demand debt obligations as well as commercial paper notes and derivatives:

- Capital projects bonds, series 2008A, of which $61.2 million is currently outstanding and supported by a direct pay letter of credit (LOC) provided by Bank of America N.A.;
- Transportation revenue bonds, series 2008A, of which $151.8 million is currently outstanding and supported by a standby bond purchase agreement with JPMorgan Chase;
- Transportation revenue bonds, series 2008B, of which $98.7 million is currently outstanding and which have been directly purchased by Wells Fargo;
- Commercial paper notes, of which $19 million is currently outstanding and supported by a direct-pay LOC issued by Landesbank Baden Württemberg; and
- Two interest-rate swap agreements related to the city's series 2008B transportation revenue bonds with Wells Fargo serving as the counterparty and a combined mark-to-market value of negative $15 million.

We believe the two LOCs and standby bond purchase agreement are sources of liquidity risk given what we deem as permissive events of default that could result in an automatic acceleration of principal. City officials report that at fiscal 2012 year-end, there was $329 million of liquid securities that provide more than 1x coverage of the roughly principal subject to acceleration. We will continue to monitor the city's cash and liquid assets against outstanding principal at risk of acceleration and would view a decline in coverage to below 1x as a negative credit event.

Outlook

The stable outlook is based on the city's record of strong financial management and maintenance of strong reserves. It also reflects the city's sufficient liquidity to meet its contingent liabilities. Should cash and liquidity securities deteriorate, causing coverage of contingent liabilities to fall below 1x, then we could lower the rating. A lower rating could also follow a weakening of general fund reserves. Should the local economy and tax base rebound significantly in the next two years in conjunction with continued strong financial performance, the rating could have upside potential.

Related Criteria And Research

- USPF Criteria: Non Ad Valorem Bonds, Oct. 20, 2006
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Ratings Detail (As Of July 11, 2013)		
Jacksonville spl rev		
Long Term Rating	AA-/Stable	Affirmed
Jacksonville ICR		
Long Term Rating	AA/Stable	Affirmed

Complete ratings information is available to subscribers of RatingsDirect 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.