

29 APR 2022

Fitch Upgrades Collier County FL's IDR to 'AAA'; Outlook Stable

Fitch Ratings - New York - 29 Apr 2022: Fitch Ratings has upgraded Collier County, FL's Issuer Default Rating (IDR) to 'AAA' and its outstanding rated special obligation bonds to 'AA+'. In addition, Fitch has affirmed the county's outstanding gas tax refunding bonds at 'AA-', and its outstanding tourist development tax (TDT) revenue bonds at 'AA+'.

The Rating Outlook is Stable.

SECURITY

The special obligation revenue bonds are supported by the county's covenant to budget and appropriate (CB&A), by amendment if necessary, non-ad valorem revenues (NAV) in amounts sufficient to pay debt service. Such covenants shall be cumulative to the extent not paid, and shall continue until such NAV or other legally available funds are sufficient to make all such required payments pursuant to the bond resolution.

The gas tax bonds are payable from a lien on and pledge of gas tax revenues collected on both a statewide (via a population-based formula) and local (via a transportation expenditures formula) basis, including revenues from the state constitutional fuel tax, the county fuel tax, the local ninth cent gas tax, and the six cents and five cents local option gas taxes.

The TDT revenue bonds are backed by a senior lien pledge of TDT revenues, which include all revenues generated from the five cents of TDT levied by the county. The TDT is levied against the charges for lease or rental accommodations with a term of less than six months. The TDT levy does not expire.

ANALYTICAL CONCLUSION

The upgrade of the IDR to 'AAA' reflects Fitch's expectations for the continuation of strong tax base, population and economic activity growth in the county, reflected in robust revenue, labor force and income gains. The IDR also reflects the county's historically solid operating performance characterized by high independent revenue raising ability, solid expenditure flexibility, and maintenance of sound reserve levels.

The county also benefits from low long-term liabilities relative to the economic resource base. The upgrade of the special obligation bond rating to 'AA+' reflects the IDR upgrade and is one notch below the IDR, given the absence of a mechanism to compel the county to generate NAV revenues sufficient to pay debt service and priority given to the payment of essential governmental services.

The 'AA-' gas tax bond rating reflects both the strong resilience of the structure to pledged revenue declines and Fitch's expectations for revenue growth to trend in line with Fitch's long-term expectations for national inflation.

The 'AA+' rating on the TDT revenue bonds reflects the strong resilience of the bond structure to periods of economic weakness, and Fitch's expectation that pledged revenues will continue recent solid growth, given the county's various tourism attractions and ongoing economic expansion. The potential for heightened revenue volatility tempers Fitch's view on revenue growth prospects and resilience of the structure.

Economic Resource Base

Collier County is located on the southwest coast of Florida, encompassing over 2,000 square miles, including part of the Everglades National Park. The county includes the city of Naples and Marco Island, popular destinations for affluent tourists and second homeowners. County population growth has been robust relative to state and national growth trends, with an estimated 2021 census population of approximately 386,000, up 20% since 2010.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Fitch believes the county's population growth and continued solid economic activity will support natural revenue growth in line with or exceeding Fitch's long-term expectations for U.S. GDP growth. The county retains considerable independent legal revenue raising capacity with current millage rates well below the 10 mill statutory cap.

Expenditure Framework: 'aa'

Expenditure growth is expected to be slightly ahead of revenue trends absent policy actions, given the broad range of services provided and demands associated with a growing population. Fixed carrying costs associated with debt and retiree benefits are manageable and represented a moderate 10% of fiscal 2021 total governmental funds spending. The county retains solid legal control over employee-related costs.

Long-Term Liability Burden: 'aaa'

Fitch considers the burden of long-term liabilities on the county's resource base as very low at 2% of personal income, and expects it to remain low given anticipated growth in the resource base and manageable pension liabilities associated with the Florida Retirement System (FRS). Capital plans to address strong population growth do not pose a risk to Fitch's liability burden assessment.

Operating Performance: 'aaa'

Fitch expects the county to continue to maintain a high level of financial flexibility through future economic downturns given its sound reserve levels and solid revenue and expenditure flexibility.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- For the IDR, upgrades are not applicable given the 'AAA' rating;
- For the gas tax bonds, expectations for sustained pledged revenue growth exceeding Fitch's long-term expectations for the national rate of inflation through economic cycles;
- For the TDT bonds, positive action above the 'AA+' rating is unlikely given the heightened potential for pledged revenue volatility for the narrow TDT stream.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- For the IDR, expectations that the county's overall financial resilience will weaken with reserves sustained at levels materially below the historical trend;
- For the IDR, an unexpected and sustained deceleration in expected long-term revenue growth trends to a level below Fitch's expectations for long-term U.S. GDP growth;
- For the special obligation bonds, a negative action on the IDR;
- For the TDT and gas tax bonds, sustained declines in pledged revenue collections that diminish resilience to future stress events.

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Collier County continues to benefit from robust economic activity and ongoing revenue and population growth. The county's financial results for fiscal 2021 (ending Sept. 30), show a general fund net operating surplus of \$13 million, reflecting strong half-cent sales tax collections of \$55.7 million that were over 50% above conservative budget assumptions and 20% over fiscal 2019 collections (the last pre-pandemic year). Aggregate general fund expenditures were about 96% of the amended budget, which also supported positive operating results. The fiscal 2022 adopted budget held the tax rate flat from the prior year and continued to reflect conservative assumptions for non-ad valorem revenues.

The county has been allocated \$74.8 million in 'American Rescue Plan Act' (ARPA) funding. ARPA funds are expected to be utilized for a variety of eligible, and largely one-time, purposes, including housing assistance, stormwater infrastructure and public health initiatives.

Gas Tax Bonds Key Rating Drivers

Resilient Pledged Revenues: Pledged revenues have remained resilient to periods of cyclical decline. Fiscal 2021 gas tax revenues covered MADS of \$13.7 million by 1.7x. To evaluate the sensitivity of pledged revenues to cyclical declines, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP scenario in the Fitch Analytical Stress Test model, or FAST) and the largest pledged revenue decline over the period covered in the sensitivity analysis. FAST indicates a potential 2.9% revenue decline in year 1 of moderate downturn, while the largest cumulative revenue decline for this period was a 9% decline between fiscal 2005 to fiscal 2013.

The county is currently contemplating some additional debt issuance backed by the gas tax; however, Fitch views it as unlikely that additional issuance would result in MADS near the 1.35x additional bonds test.

Conservatively assuming leverage rises to maximum annual debt service (MADS) of 1.4x revenues versus the current 1.7x, Fitch estimates pledged revenues could decline 29% and remain sum sufficient. This is a strong 10x the FAST result and 3.2x the largest historical decline, supporting a 'aaa' assessment for the resilience of the structure.

Slow Revenue Growth: Gas tax revenues totaled \$22.9 million in fiscal 2021 and have increased at a CAGR of 2.3% for the most recent ten-year period. Following a cumulative decline of over 9% between 2005 and 2013, revenues had been growing at a brisk pace prior to the pandemic. Following an 8% decline in fiscal 2020, pledged revenues have returned to growth, with fiscal 2021 revenues up about 9% yoy. Fitch expects growth to perform in line with long-term national inflationary growth given population growth and expected trends in gas demand through normal economic cycles, supporting an 'a' assessment for growth prospects.

Tourism Tax Bonds Key Rating Drivers

Resilient TDT Revenues: Fiscal 2021 pledged revenues of \$36.2 million covered MADS almost 10x. The county's fiscal 2020 pandemic related TDT declines were markedly less severe than those experienced in many other markets, and were slightly smaller than the 17% largest historical TDT decline the county experienced in fiscal 2009. Assuming leverage to the 2.0x MADS coverage requirement set forth in the ABT, pledged revenues could decline by 50% before MADS coverage declines to 1.0x. The 50% revenue stress would be roughly equivalent to 10x Fitch's modeled revenue sensitivity result and 3.0x the largest actual revenue decline in the review period, reflective of the structure's strong resilience to periods of cyclical decline and consistent with a 'aaa' assessment of the structure's resilience.

Solid Revenue Growth Prospects: Pledged TDT revenue growth (not including tax rate adjustments) had been solid up until the pandemic. Following a pandemic-related 15% decline in fiscal 2020 (ending Sep. 30), pledged revenues have grown almost 39% in fiscal 2021 (18% over fiscal 2019 collections.) Effective

September 2017, the county increased the tax rate by 1%, which resulted in an approximate 27% increase in revenues yoy to nearly \$28 million in fiscal 2018. Fitch expects TDT revenue growth will moderate from recent record growth as volatility associated with the pandemic moderates and tourism activity trends stabilize. TDT revenues remain susceptible to sharp volatility, limiting Fitch's assessment of growth prospects to 'aa'.

Gas Tax Bonds Exposure to Issuer Operations

The pledged gas tax revenues meet the requirements set out in Fitch criteria for treatment as "pledged special revenues" under section 902(2)(b) of the U.S. bankruptcy code. Fitch treats the debt as somewhat insulated from the operating risk of the entity. Therefore, the rating on the dedicated tax bonds could be up to four notches above the county's IDR.

Tourism Tax Bonds Exposure to Issuer Operations

The pledged TDT revenues meet the requirements set out in Fitch criteria for treatment as "pledged special revenues" under section 902(2)(b) of the U.S. bankruptcy code. Fitch treats the debt as somewhat insulated from the operating risk of the entity. Therefore, the rating on the dedicated tax bonds could be up to four notches above the county's IDR.

CREDIT PROFILE

The local economy is centered on tourism, agriculture, fishing, ranching and forestry with a growing healthcare and technology presence. The county's unemployment rate trends below both the state and national average. The tax base is predominantly residential and very affluent, with personal income levels that exceed the state and national average.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

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Rating Actions

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Collier County (FL) [General Government]	LT IDR	AAA ●	Upgrade	AA+ ●

- Collier
County
(FL)
/Covenant
to
Budget
and LT
Appropriate
Non-
Ad
Valorem
Revenues/
1 LT

AA+ ●

Upgrade

AA ●

ENTITY/DEBT	RATING	RECOVERY	PRIOR
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<ul style="list-style-type: none"> Collier County (FL) /Fuel Tax Revenues - Gas/ 1 LT 	LT	AA-	Affirmed	AA-
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<ul style="list-style-type: none"> Collier County (FL) /Issuer Default Rating - General Government/ 1 LT 	LT	AAA	Upgrade	AA+
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<ul style="list-style-type: none"> Collier County (FL) /Tourism Tax Revenues/ 1 LT 	LT	AA+	Affirmed	AA+
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RATINGS KEY OUTLOOK WATCH

POSITIVE		
NEGATIVE		
EVOLVING		
STABLE		

Applicable Criteria

[U.S. Public Finance Tax-Supported Rating Criteria \(pub.04 May 2021\) \(including rating assumption sensitivity\)](#)

Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

Additional Disclosures

[Solicitation Status](#)

Endorsement Status

Collier County (FL) EU Endorsed, UK Endorsed

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