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Fitch Ratings: Florida HB 653 May Impact Local Government Credit Quality

Fitch Ratings-New York-13 February 2020: Fitch Ratings does not expect Florida House Bill (HB) 653, if signed into law, to trigger a significant number of rating actions for local governments. The law would prohibit the use of electric enterprise fund revenues to support general governmental functions effective July 1, 2020. It could prove a political challenge to policy makers who have to allocate the cost of government among taxpayers and utility ratepayers, including utility, water and sewer customers, but is unlikely to create financial strain for most local governments. Electric utility transfers make up a small percentage of most local governments' budgets and these entities typically have offsetting core credit strengths including revenue-raising ability, expenditure flexibility and ample reserves relative to the potential impact of an economic stress.

Complying with the legislation could prove a greater challenge to those local governments that rely on utility transfers as an important general fund revenue source and whose offsetting budgetary flexibility is not as high. Municipal utility transfers range as high as 30% of general fund revenues, allowing for lower ad valorem tax rates than would otherwise be required given the services provided.

The adoption of HB 653 could necessitate immediate increases in those rates, cutting into existing margins within the statutory limit and potentially weakening revenue-raising powers and flexibility to respond to future economic stress. Independent revenue raising ability is a component of one of Fitch's four key rating drivers in its U.S. public finance tax-supported rating criteria and informs Fitch's view of overall financial resilience.

The credit impact of HB 653 on retail electric utilities would be mildly positive in Fitch's view. Transfer payments typically approximate 6% of total system revenues, which Fitch does not consider financially burdensome. However, given their importance to the host government, Fitch views transfer payments as a fixed obligation for retail utilities, and as such includes them in the analysis of financial performance. Systems that elect to return excess cash flow to customers through lower utility rates would likely benefit from improved rate competitiveness, affordability and overall revenue defensibility; whereas systems that elect to use the excess free cash flow to build cash reserves or fund additional capital spending and/or pay-off existing debt would likely benefit from lower system leverage. Fitch views either scenario as positive for utilities.

Contact:

Michael Rinaldi
Senior Director
+-1-212-908-0833
Fitch Ratings Inc.
Hearst Tower
New York, NY 10019

Andrew Destefano
Director
+1-212-908-0284

Media Relations: Sandro Scenga, New York, Tel: +1 212 908 0278, Email: sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com