

RatingsDirect®

Summary:

Village of Estero, Florida; General Obligation

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Credit Profile

ICR

Long Term Rating

AAA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' issuer credit rating (ICR) to the Village of Estero, Fla., based on the application of its methodology for rating U.S. governments, published Sept. 9, 2024.
- The outlook is stable.

Security

The village does not have any debt outstanding.

Credit overview

The 'AAA' rating reflects our view of Estero's high local incomes relative to those of Lee County and the U.S., history of healthy reserves well above that of peers, and low level of service responsibility, all of which enhance budget flexibility. In addition, the rating is supported by management's comprehensive long-term planning and financial policies, with no long-term debt and liabilities that could pressure the budget. The economy is growing through population and market value indicators, although economic output in the county is weaker than the nation overall. The strong growth in the economy is contributing to higher revenue for the village, bolstering financial results and contributing to healthy reserve levels relative to those of peers. The village does not have a defined-benefit pension plan or any major other postemployment benefit (OPEB) liability. Although officials are considering issuing debt in the next year for a large land purchase, we have factored the potential debt into our analysis and believe the debt profile will remain manageable.

The rating further reflects our view of Estero's:

- Growing economy in Lee County, with local incomes stronger than that of the nation but weaker economic output for the county, in addition to planned economic development to accommodate an expanding population;
- History of conservative budget assumptions supporting the trend of positive operations, reserves well above those of state and national peers, historical pay-as-you-go capital spending, a tax rate well below state statutory limits, and enhanced expenditure flexibility given the limited amount of services provided;
- Well-embedded policies and practices that include a formal reserve policy, formalized three-year financial planning to help guide budgeting decisions, a five-year capital improvement plan, and formalized debt management and investment policies;
- Track record of minimal debt and long-term liabilities, with no pension and OPEB liabilities, but potential debt in the near term; and

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- For more information on our institutional framework assessment for Florida villages, see "Institutional Framework Assessment: Florida Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We view Estero's physical risks as elevated given the village's location and susceptibility to acute and chronic physical risks, including hurricanes and sea-level rise. However, management's experience with events such as Hurricane Ian and the village's participation in the Southwest Florida Regional Resiliency Compact mitigate immediate deterioration in credit fundamentals, in our opinion. We view social and governance risks as neutral within our credit rating analysis. The village has also taken steps to mitigate cybersecurity risk.

Rating above the sovereign

In our view, Estero can be rated higher than the sovereign because we believe that it could maintain better credit characteristics than the nation in a stress scenario given the village's predominantly locally derived revenue base, and any potential future pledged revenue supporting debt is at limited risk of negative sovereign intervention.

Outlook

The stable outlook reflects our view of the village's comprehensive policies and practices, as well as significant liquidity and reserves providing enhanced financial flexibility to help manage upcoming capital needs and to mitigate potential costs for chronic weather event risks.

Downside scenario

We could lower the rating if the village were to experience material deterioration in available reserves, either through a sustained structural imbalance or significant spending for capital or unexpected costs.

Credit Opinion

Economy

Local incomes are stronger than that of the nation and support the village's growing and mostly residential tax base, but county-level economic output is weaker than that of peers. Estero, which was officially incorporated Dec. 31, 2014, encompasses about 30 square miles within Lee County, about halfway between Cape Coral and the city of Naples. Its location in southwest Florida is leading to a population boom because the village's permanent population has risen by nearly 43% since incorporation on Dec. 31, 2014. Estero is primarily residential and regularly considers annexing surrounding communities, which has expanded the tax base in recent years. Moreover, officials indicated several development projects underway in the village, including four new hotels, a luxury residential high-rise, and multiple commercial buildings, all of which should help expand the tax base further.

Financial performance, reserves, and liquidity

In our opinion, Estero's rapid growth, limited operational responsibility, high reserve position, and significant taxing flexibility all support recent financial results and the solid financial profile overall. The village operates with a self-described "government light" structure, which limits operating expenditures year to year through the use of consultants or interlocal agreements for the majority of services to residents. Services provided by the village include

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street and road improvements, parks and recreation, community development, code enforcement, and general and administrative services. Major services such as police, fire, and utilities are provided by Lee County, the Estero Fire Rescue District, and Bonita Springs Utilities, respectively. Estero's revenue profile largely consists of impact and franchise fees, property taxes, and intergovernmental revenue.

In the past three fiscal years, the village's average annual surplus general fund result has been about \$6.6 million, or 33% of revenue. Excess surplus is typically transferred to the capital projects fund for capital, or to the debt service fund for early debt retirement. During fiscal 2022, Estero transferred out approximately \$17 million in accumulated funds to retire a 10-year \$20 million bank loan, seven years ahead of schedule. The village realized about \$7.3 million in additional unexpected costs following Hurricane Ian in 2023, all of which was covered through its emergency reserves; the Federal Emergency Management Agency reimbursed \$6.9 million. We consider the village's committed fund balance for emergencies available for general use, if needed, which totaled \$4.5 million in 2023. Estero's unofficial 2024 results reflect an additional \$13.9 million surplus, but we note that the village made approximately \$20 million in transfers to the capital fund in fiscal 2024. The \$54 million 2025 general fund budget is balanced, and the village does not anticipate reducing reserves materially in the near term. We note that Estero intends to spend an additional \$20 million for street improvements in 2025, paid for through American Rescue Plan Act funds and road impact fees from the capital fund.

Management

The village's robust financial policies and practices guide its financial position and inform future budgets to maintain this position. We think regular budget monitoring and conservative assumptions continue to support surplus operations and Estero's ability to provide funding for projects in the five-year capital improvement plan.

Our view of management practices reflects Estero's:

- Conservative budgeting that uses a historical trend analysis and third-party sources for budget preparation and monthly reporting to council; in our view, constant budgeting monitoring has contributed to positive operating results;
- Five-year capital planning done with funding sources for projects identified, in addition to a three-year long-range financial forecast updated throughout the year to help navigate future operating challenges; and
- Reserve policy to maintain fund balances of at least 50% of expenditures, an investment policy with monthly earnings reports to the board, and a debt policy that focuses on the use of financings with some self-imposed restrictions to limit escalating costs.

Debt and liabilities

Following the final payment of a lease obligation in September of 2024 (which was not rated by S&P Global Ratings), the village has no other debt outstanding. Estero is considering a \$20 million-\$30 million 20-year bond to finance a 72-acre land purchase in fiscal 2025. While the annual costs of the potential debt is unknown at present, we have factored the projected par amount into our analysis and believe the village's debt and liabilities will remain manageable. Estero expects to use a combination of grant funding, reserves, and debt to implement its approximately \$135 million five-year capital improvement program. The village does not offer a defined-benefit pension plan to employees, and the OPEB liability totaled \$7,151 in 2023.

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Table 1

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Table 2

Village of Estero, Florida--key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GDP per capita % of U.S.	--	--	71	70
County PCPI % of U.S.	--	--	95	95
Market value (\$000s)	--	11,132,500	8,857,701	8,367,488
Market value per capita (\$)	--	282,178	293,856	281,156
Top 10 taxpayers % of taxable value	--	6.7	7.4	7.7
County unemployment rate (%)	--	3.2	3.3	4.3
Local median household EBI % of U.S.	--	130	128	127
Local per capita EBI % of U.S.	--	162	162	159
Local population	--	39,452	30,143	29,761
Financial performance				
Operating fund revenues (\$000s)	--	24,368	20,435	13,983
Operating fund expenditures (\$000s)	--	16,674	8,011	9,947
Net transfers and other adjustments (\$000s)	--	--	(4,400)	--
Operating result (\$000s)	--	7,694	8,024	4,036
Operating result % of revenues	--	31.6	39.3	28.9
Operating result three-year average %	--	33.2	--	--
Reserves and liquidity				
Available reserves % of operating revenues	--	113.5	97.7	173.8
Available reserves (\$000s)	--	27,668	19,973	24,309
Debt and liabilities				
Debt service cost % of revenues	--	0.6	73.8	7.6
Net direct debt per capita (\$)	--	2	9	569
Net direct debt (\$000s)	--	77	257	16,920
Direct debt 10-year amortization (%)	--	--	--	--
Pension and OPEB cost % of revenues	--	--	--	--
NPLs per capita (\$)	--	--	--	--
Combined NPLs (\$000s)	--	--	--	--

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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