

Brevard County School Board, Florida

Certificates of Participation New Issue Report

Ratings

New Issues

Certificates of Participation
Refunding, Series 2015B AA-

Certificates of Participation
Refunding, Series 2015C AA-

Outstanding Debt

Certificates of Participation AA-
Implied Unlimited Tax General
Obligation AA-

Rating Outlook

Stable

New Issue Details

Sale Information: \$12,225,000 Refunding Certificates of Participation, Series 2015B, and \$87,995,000 Refunding Certificates of Participation, Series 2015C, via negotiation the week of Feb. 9.

Security: An undivided proportionate interest in lease payments made, subject to appropriation, by the Brevard County School Board under a master lease purchase agreement.

Purpose: To refund certain outstanding certificates of participation (COPs) for savings.

Final Maturity: July 1, 2032.

Key Rating Drivers

Strong Financial Management: The district's conservative budgeting practices and policies have contributed to historically sound operations and adequate reserves. These results have occurred even as revenues have declined due to prior year's decreases in property values and volatile levels of state funding. The 'AA' implied unlimited tax GO (ULTGO) rating reflects the district's satisfactory financial performance and expected maintenance of adequate reserves.

Improved Tax Base Values: The district's tax base has seen a rebound in taxable values due to new development and growth in property values after a period of significant declines. Fitch Ratings expects moderate tax base growth to continue as a result of economic development underway in the county.

Leveraged Capital Outlay Millage: The district's capital outlay millage, used for debt service payments and capital funding, is still highly leveraged although leverage has lessened after two years of improved tax base growth. No additional debt is planned for the near term.

Low Debt Levels: Overall debt ratios are low and Fitch does not expect these to change materially. Amortization rate is slightly below average. Total carrying costs for debt, pensions, and other post-employment benefits (OPEB) are low as a percentage of total governmental funds spending.

Average Economic Indicators: Unemployment rates continue to decline but remain above state and national averages. Wealth levels are in line with state averages. The economy appears to be making a recovery from major job losses in 2011 and is anchored by tourism and an aerospace industry which has grown more diverse following the completion of the space shuttle program.

COPs Subject to Appropriation: The 'AA-' COPs rating reflects the district's general credit quality, its obligation to make annually appropriated lease payments under a master lease structure and the essentiality of leased assets.

Rating Sensitivities

Continued Strong Financial Management: The ratings are sensitive to changes in the district's credit fundamentals including its strong financial management practices and maintenance of adequate reserves. The Stable Rating Outlook reflects Fitch's expectation that these practices will continue.

Related Research

[Fitch Rates Brevard County School Board, FL Refunding COPs 'AA-' \(February 2015\)](#)

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**Rating History —
COPs**

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	2/4/15
AA-	Affirmed	Stable	9/10/14
AA-	Affirmed	Stable	3/28/13
AA-	Affirmed	Stable	8/15/12
AA-	Affirmed	Stable	8/27/10
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	4/2/08
A+	Assigned	Stable	3/14/07

**Rating History —
ULTGOs**

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	2/4/15
AA	Affirmed	Stable	9/10/14
AA	Affirmed	Stable	3/28/13
AA	Affirmed	Stable	8/15/12
AA	Affirmed	Stable	8/27/10
AA	Revised	Stable	4/30/10
AA-	Affirmed	Stable	4/2/08
AA-	Assigned	Stable	3/14/07

Credit Profile

Brevard County (implied ULTGOs [AA/Stable]), home to Cape Canaveral, is located along Florida's eastern seaboard and has a 2014 population of 550,823 (up 1.3% since 2010). The boundaries of the school district are coterminous with the county's.

Diverse Economy with Improving Employment

The area economy was historically anchored by the federal government's space program, with ancillary defense and aerospace contractors including Harris Corporation, Northrop Grumman, and Boeing playing a significant role in the economy. The county experienced significant job losses during the recession and after closure of the space shuttle program in 2011. Despite the setback, the area economy has been able to absorb the job losses and is currently experiencing a notable recovery. Businesses have opened or expanded and taken advantage of the skilled workforce that still exists in the county and new housing and retail developments have rebounded after a lull during the recession.

Year-over-year employment was up 1.6% in 2014 and the unemployment rate, at 6.1% as of November, is down from 7.2% in 2013 but still above that of the state (5.6%) and nation (5.5%). Major employers include Health First (9,700), the district (9,400), and Harris Corporation (6,000).

Tourism also represents a sizable portion of the area economy, driven by the area's numerous beaches, the Kennedy Space Center, and Port Canaveral. The port serves as base operations for Disney Cruise Lines and supports other major cruise companies. Port activity has been robust with expansions underway which Fitch believes could spur new development.

Student enrollment declines peaked in fiscal 2009 with a loss of 1,235 students (down 1.7%), but have begun to trend upward with growth of 1.5% to 73,685 through October 2014. The district projects moderate growth to continue in future years based upon demographic trends and development in progress within the county.

Population growth was strong during the early part of the past decade but has slowed since 2006, standing at an estimated 550,823 for 2014. Per capita income and median household income levels are slightly above state averages but equal 96% and 91% of national levels, respectively.

Improved Tax Base Values

The county experienced a significant decline in property values, with taxable assessed values (TAV) declining 32% from 2008–2013. This resulted in a corresponding reduction in revenue from the district's discretionary operating and capital outlay millage. The drop in values has appeared to have bottomed out as TAV has improved notably by 4.6% in fiscal 2014 and 8.8% in fiscal 2015. The latter increase was due primarily to the newly reconstructed Florida power and light power plant coming on line. Management expects TAV to improve 4%–5% annually over the next few years, which Fitch believes is reasonable as economic development has rebounded in the county. Recent home pricing indicators support this notion as the December home value index improved 14% year over year according to Zillow, Inc.

Sales Tax Referendum Approved by Voters

County voters approved a one-half-cent sales tax via referendum in November 2014. The estimated annual proceeds from the sales tax is \$31 million with the levy implemented on

Related Criteria

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)
[Tax-Supported Rating Criteria \(August 2012\)](#)

Jan. 1, 2015. Revenues will be used for technology and school security related projects and school facilities improvements. The term of the sales tax is for six years. Fitch considers the voters' approval of the sales tax to be a credit positive as it provides the district with the means to finance needed improvements and eases what could have been financial pressure on the district's general and capital funds.

General Fund Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2010	2011	2012	2013	2014
Property Tax	221,528	192,994	177,927	175,202	169,648
Other Local Sources	8,949	7,820	6,576	6,630	8,085
State Sources	250,697	278,948	277,402	290,566	312,406
Federal Sources	2,903	3,680	3,405	2,914	1,988
Total Revenues	484,077	483,442	465,310	475,312	492,127
Capital Outlay	1,297	1,312	1,249	1,717	1,624
Debt Service	483	0	0	0	0
Instruction	325,821	337,040	341,987	341,915	344,577
Operation and Maintenance of Plant	51,333	43,217	49,806	54,463	54,294
School Administration (Materials, Supplies)	40,086	35,587	38,026	37,515	38,197
Other	50,660	47,094	49,588	49,773	48,537
Total Expenditures	469,680	464,250	480,656	485,383	487,229
Operating Surplus/(Deficit)	14,397	19,192	(15,346)	(10,071)	4,898
Transfers In	4,371	5,590	1,302	1,299	1,299
Other Sources	2	260	403	22	29
Transfers Out	3,995	2,700	6,005	7,942	5
Net Transfers and Other	378	3,150	(4,300)	(6,621)	1,323
Net Op. Surplus/(Deficit) After Transfers	14,775	22,342	(19,646)	(16,692)	6,221
Total Fund Balance	57,154	79,496	59,850	43,158	49,379
As % of Transfers Out and Other Uses	12.1	17.0	12.3	8.7	10.1
Unrestricted Fund Balance	47,172	72,434	53,368	39,138	47,318
As % of Transfers Out and Other Uses	10.0	15.5	11.0	7.9	9.7

Note: Numbers may not add due to rounding.

Prudent Management Practices Lead to Positive 2014 Results

Financial management is strong as evidenced by historically prudent management of reserves despite volatility in state funding. Additionally, the district successfully eliminated a \$30.7 million budget gap for fiscal 2014 due in part to the district's failed sales tax referendum submitted in November 2012. Projected sales tax revenues were estimated at \$32.0 million and were expected to provide partial budget relief for the district as the operating fund was funding a portion of capital needs. Additionally, the district's 0.25 mill critical-needs millage, which provided roughly \$8.9 million in revenues, expired at the end of fiscal 2013.

Management quickly reacted to the failed sales tax proposal and closed three elementary schools and one middle school. It has also implemented a number of program cuts, staffing changes, and other cost-saving measures which resulted in elimination of the budget deficit.

The district ended fiscal 2014 with a \$6.2 million (1.3% of spending) operating surplus after transfers, increasing unrestricted general fund reserves to \$47.3 million, or a solid 10.0% of spending. Conservative estimates on expenditure savings helped the district achieve these surplus results as transportation, utility, and departmental savings exceeded expectations.

The district's policy is to maintain a contingency reserve of at least 3.5% of revenues. Reserve levels have historically exceeded this threshold by a good margin, which has long been noted by Fitch as a credit strength.

Fiscal 2015 Budget Remains Conservative

The district's fiscal 2015 budget is up slightly from fiscal 2014 and includes a moderate increase in state funding and an increase in pension and salary costs. The budget includes a small use of fund balance to help support salary increases as well as increased funding of its self-insurance fund. Fitch expects reserve levels to remain adequate due to management's history of conservative budget practices.

COP Security Strong, Capital Outlay Millage Leveraged

Legal provisions under the master lease are strong, requiring an all-or-none appropriation. The district would relinquish rights to approximately 75% of its facilities in the event of non-appropriation.

The district may use any legally available revenue for COP debt service, but has historically allocated revenue for this purpose from its capital outlay millage. The capital outlay millage is authorized by state law up to 1.5 mills. Up to three-fourths of the proceeds of the capital levy is available for lease payments. Effective July 1, 2012, the three-fourths limitation is waived for lease purchase agreements entered into prior to June 30, 2009 (all of the district's lease agreements were entered into prior to this date). The district requires approximately 1.23 mills to fund COPs debt service (assuming a 96% tax collection rate), which is above average, but down from 1.47 mills two years ago as tax base values have increased.

Debt Levels Low, Retiree Costs Manageable

The district's overall debt levels are low at 1.3% of the district's \$43.5 billion market value and \$1,059 per capita. Amortization is below average, with roughly 40% of debt being retired in 10 years.

Employees of the district participate in the state-administered Florida Retirement System (FRS). FRS is relatively well funded with an estimated funding ratio of 79% as of June 30, 2013 using Fitch's 7% discount rate.

The district provides an implicit subsidy for its retirees for health and prescription benefits. Pension and OPEB obligations remain manageable. Carrying costs for debt, pension and OPEB pay-go are manageable at 11% of total governmental expenditures for fiscal 2014.

Debt Statistics

(\$000)	
This Issue	100,220
Outstanding Direct Debt – Net of Refunding	367,023
Self-Supporting	5,702
Total Net Direct Debt	472,945
Overlapping Debt	116,261
Total Overall Debt	583,504

Debt Ratios

Net Direct Debt Per Capita (\$) ^a	848
As % of Market Value ^b	1.1
Overall Debt Per Capita (\$) ^a	1,059
As % of Market Value ^b	1.3

^aPopulation: 550,823 (2014). ^bMarket value: \$43,474,359,000 (2014). Note: Numbers may not add due to rounding.

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