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Fitch Affirms Brevard County School Board, FL $100.2 MM COPs 'AA-'; Outlook Stable

Fitch Ratings affirms its 'AA-' rating on the following Brevard County School Board (the district), FL certificates of participation (COPs):

--$12.1 million, COPs series 2015B
--$88.1 million, COPs series 2015C

In addition, Fitch affirms its Issuer Default Rating (IDR) of 'AA' for the district.

The Rating Outlook is Stable

SECURITY
The district's COPs are secured by lease payments made to the trustee and pursuant to a master lease purchase agreement. Lease payments are made from legally available funds of the district, subject to annual appropriation by the Brevard County School Board. The district is required to appropriate funds for all outstanding leases on an all-or-none basis. In the event of non-appropriation, all leases would terminate, and the district would, at the trustee's option, have to surrender all lease-purchased facilities under the master lease for the benefit of owners of the COPs which financed or refinanced such projects.

KEY RATING DRIVERS

The 'AA' IDR reflects the district's positive revenue growth prospects, limited independent ability to raise revenues, solid expenditure flexibility, and strong operating performance. Long-term debt and pension liabilities are low relative to personal income.

The 'AA-' rating on the COPs is one notch below the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

Economic Resource Base
Brevard County School District is located along Florida's eastern seaboard with a 2015 population of 568,088 (a three year total increase of approximately 3.2%). The boundaries of the school district are coterminous with the county. As the tenth largest school district of 67 in the state, it operates 92 schools and sponsors 10 charter schools, with a fiscal 2015 total enrollment of 73,685 full-time equivalent students. The district is also the largest employer in Brevard County with nearly 9,000 employees. The local economy is based on a diverse mix of aerospace, manufacturing, agriculture and tourism. The Kennedy Space Center (KSC) serves as both an area employment anchor and a tourist attraction. Despite termination of the space shuttle program in 2011, the presence of KSC and the county's highly trained workforce have stimulated the location of numerous aerospace and other technologically–related firms within the county. The aerospace industry within the county has been growing with expansions at Northrop Grumman, Boeing and Embraer either planned or underway. Port Canaveral, one of the busiest cruise ports in the world, is expanding its facilities to service major cruise lines such as Royal Caribbean and Norwegian as well as cargo and container ships. County employment

has been growing, resulting in declining unemployment rates that remain comparable to state and national levels. County income and wealth levels are moderately below state and national averages.

Revenue Framework: 'bbb' factor assessment

District revenues are comprised of a combination of state aid and local property taxes. The district's 10-year general fund revenue growth rate (through fiscal 2014) was in line with national inflation, but below US economic performance. Despite an improved environment for state school funding, and a rebound in the county's economic development, the district's historically declining trend in traditional enrollment vs. charter school enrollment provides an expectation of slow to stagnant revenue growth. The district has no meaningful independent revenue raising ability to raise revenues. As with most Florida school districts, voter approval must be obtained in order to impose additional tax levies.

Expenditure Framework: 'aa' factor assessment

The natural pace of spending is likely to remain in line with or rise marginally above revenues. The district's carrying costs are moderate and management retains the ability to control labor costs and staffing levels after engaging in a structured bargaining framework.

Long-Term Liability Burden: 'aaa' factor assessment

The district's long-term liability burden is low at 4% of personal income. The district participates in the adequately-funded Florida Retirement System (FRS). The district has no near-term debt issuance plans. With input from the community, the district will embark on a $600 million capital planning over the next ten years.

Operating Performance: 'aaa' factor assessment

The district targets an 8-9% unreserved fund balance. Historically it has maintained reserve levels above the target, with a slight dip in fiscal 2009. The FAST suggests the district may see a 2.2% revenue decline in a typical recession; however, Fitch believes that the district, supported by its solid expenditure flexibility, current reserves and additional available monies in other funds could offset the loss and maintain strong safety margin in a moderate economic decline scenario.

RATING SENSITIVITIES

Maintenance of Financial Flexibility: The rating is sensitive to material changes in the district's solid expenditure flexibility, low long-term liabilities, and maintenance of strong reserve levels through a typical economic cycle.

CREDIT PROFILE

The Great Recession and the 2011 closing of the NASA shuttle program significantly stressed the county's economy. Employment fell by over 8% between 2006 and 2010 and unemployment rates topped 11%. Since then, economic activity has rebounded and the county is poised to benefit from current economic development in the technology sector and other commercial areas. Unemployment rates have gradually declined to equal those of the state and nation.

The district's tax base has also seen a rebound after a period of significant declines. The housing recovery has boosted the county's mostly residential tax base, fueling steady growth since fiscal 2013. Home prices were up 9.7% over the past 12 months according to Zillow but remain well below the prerecession peak. Zillow projects a 4.5% increase in home values over the next year. Fitch expects moderate tax base growth to continue as a result of economic development underway in the county.

Revenue Framework

The Florida Education Finance Program (FEFP) is the primary mechanism for funding the operating costs of Florida school districts. The FEFP process determines a base per-student funding level. The funding is split between state funds, largely derived from statewide sales tax revenue, and local funds via the required local millage rate established pursuant to state statutory procedure. Discretionary taxes for operations and capital/maintenance are also levied by the district up to the statutory maximum rates of 0.748 mills and 1.5 mills, respectively. Fitch's view of school district revenue prospects considers the revenue performance of the state as a starting point given its fundamental responsibility for public education funding. Fitch believes Florida's revenue prospects will grow at a pace that is above the rate of inflation but below U.S. economic performance based on a resumption of population growth and stronger economic expansion. School district revenue expectations are somewhat tempered by the state's education funding commitments which have been variable in recent history with annual changes in the base student allocation as low as a 1% increase for fiscal 2017. Enrollment trends and expectations are the second key determinant of a school district's revenue growth prospects and are based on Fitch's view of the local economy, demographic patterns, and competition from non-traditional public schools, among other factors.

District general fund revenue growth over a ten year period (through fiscal 2014) was in line with inflation, but below GDP growth. Going forward, Fitch expects the natural pace of revenue growth to be slow given continued traditional enrollment declines, which have trended downward since FY 2009. Charter schools had a 25% loss of students in FY 2012 but since then have recovered posting considerable gains in FY2014 and 2015 of 49% and 13%, respectively. The district posted a slight decline (less than 0.5%) in traditional enrollment again in FY2016 in contrast with charter schools which experienced increased enrollment of nearly 17%. State revenue performance has returned to steady growth, which should benefit FEFP funding levels absent education funding policy changes. The enacted state budget for fiscal 2017 includes a roughly 1% increase in the level of per pupil funding.

Due to the state funding mechanism, Florida school districts have very limited ability to independently increase general fund revenues. However, this limitation as a factor in the revenue framework assessment is somewhat offset by the recognition of K-12 education as fundamentally a state responsibility and the strong foundation of state support for education funding.

Expenditure Framework

Personnel costs for teachers and staff comprise the vast majority of district expenditures. Fitch expects expenditure growth to be in line with to modestly above expected revenue growth, reflecting enrollment-driven spending needs largely funded by increases in state and local funding.

The district's mandate to provide educational services places some limitations on its ability to make expenditure reductions in the event of a revenue decline. Nonetheless, the district's moderate carrying costs and ability to raise class sizes, reduce personnel, adjust curriculum, and make other cuts if needed, provides solid expenditure flexibility.

Long-Term Liability Burden

The district's combined debt and pension liabilities, relative to personal income, is low at about 4% with direct debt accounting for most of the liabilities. There are no plans to issue additional bonds in the medium term. The district participates in Florida State Pension Plan. The estimated Fitch-adjusted ratio of assets to liabilities for its pension plans is adequate at 80.7% (assuming 7% investment returns). The district's liability related to other post-employment benefits (OPEB) is less than 1% of personal income.

Operating Performance

The three-year scenario revenue estimate generated by Fitch’s analytical sensitivity tool (FAST) indicates a moderate level of revenue volatility for the district. Fitch expects the district to respond to a recessionary decline in revenues similarly as in the past, by taking actions to reduce spending and rebalance operations while maintaining an adequate level of fundamental financial flexibility. Fitch believes that the district would maintain a reserve safety margin in line with ‘aaa’ financial resilience assessment in a moderate economic decline.

The school district’s targets an 8% unreserved fund balance and has met or surpassed the target in the last six years. Available balances outside the general fund, specifically the capital improvement fund, augment the district’s financial flexibility. Depletion or significant erosion of reserves or capital funds would pressure the rating. Fitch expects the district to maintain strong gap-closing capacity throughout economic cycles.

The district’s conservative budgeting practices and policies have contributed to historically sound operations and strong reserves. These results have occurred even as revenues have declined due to prior years’ decreases in property values and volatile levels of state funding.

The general fund balance FY 2016 estimates compare relatively flat to FY 2015 but are projected to slightly increase in FY 2017.

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Additional information is available at 'www.fitchratings.com'.

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

Unplaced Controls – *These will not be published in the RAC. Do Not Delete; Press: Please Edit*

Criteria Variations

Scenario Analysis Comment

Dedicated Tax Bond Items

DT PR Name

DTB Pledged Revenue

DTB Lien Status

DTB Additional Bonds Test

DTB Expectation

DTB Flow of Funds

DTB Issuer Covenants

DTB Debt Service Reserve

DTB Other Material

Dedicated Revenue Stream Details

Revenue Stream Sensitivity

Issuing Entity Exposure

Revenue Stream Analytical Conclusion

DTB Rating Sensitivities