MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa3 to Brevard Co. S.B., (FL) COPs, Ser. 2015 B&C

Global Credit Research - 03 Feb 2015

BREVARD COUNTY SCHOOL BOARD, FL
Public K-12 School Districts
FL

Moody's Rating

ISSUE		RATING
Refunding Certificates of Participation, Series 2015B		Aa3
Sale Amount	$12,225,000	
Expected Sale Date	02/17/15	
Rating Description	Lease Rental: Appropriation	
Refunding Certificates of Participation, Series 2015C		Aa3
Sale Amount	$87,995,000	
Expected Sale Date	02/17/15	
Rating Description	Lease Rental: Appropriation	

Moody's Outlook NOO

NEW YORK, February 03, 2015 --Moody's Investors Service has assigned a Aa3 rating to Brevard County School Board's (FL) $12.2 million Refunding Certificates of Participation (COPs), Series 2015B and $88 million Refunding Certificates of Participation, Series 2015C. Moody's maintains a Aa3 rating on the board's $477.7 million outstanding COPs, and a Aa2 Issuer Rating on the district.

SUMMARY RATING RATIONALE

The Aa3 COP rating reflects the overall essential nature of the pledged assets, favorable legal protections pursuant to the Master Lease that enhance the incentive to appropriate, and an effective separate repayment source for the certificates, which is very highly leveraged.

The COP and Issuer Rating also reflect: the still sizable, and recovering, property tax base; good financial position with moderate reserves and cash; and modest debt burden.

OUTLOOK

Outlooks are generally not applicable for local government credits of this size.

WHAT COULD MAKE THE RATING GO UP:

- Increased financial reserves

- Significantly increased capital revenues

-Material economic improvement

WHAT COULD MAKE THE RATING GO DOWN:

- Declines in cash and fund balance

- Continued deterioration of capital funds

- Economic deterioration

STRENGTHS

- Ability to adjust budgets to maintain or enhance financial strength
- Strength of the master lease with effective separate repayment source
- Recovering tax base
- Voter approval for a six-year one-half cent sales tax

CHALLENGES

- Very highly-leveraged capital millage
- Meager capital funds
- Diversify the economy after the loss of the space shuttle program

RECENT DEVLOPMENTS

Since our report of September 2014, the 2014 audit became available, closely mirroring unaudited amounts. Also, the district received voter-approval for a six-year, one-half cent sales tax.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: ECONOMY SHOWS SIGNS OF GROWTH

The district is coterminous with Brevard County, in east-central Florida, which has been one of the principal locations of the nation's space program. The economy has traditionally been driven by the nation's shuttle program, which ended in 2011, and a number of high tech manufacturing employers, some of the larger ones dependent on government as well as commercial projects. The loss of jobs associated with both NASA and manufacturing seems to be stabilizing with Space X now operating at Kennedy Space Center and manufacturing entities either already downsized or obtaining new contracts. This is evidenced in stabilized enrollment figures, and declining unemployment rates to 6.3% in October 2014, down from the high of 12.8% in January 2010.

The county benefits from a skilled labor pool, availability of land, and a favorable climate. The concentration of high-tech firms in the MSA, the contract search for the builder of the next generation shuttle capsule, and major expansions at Northrup Grumman and Embraer ($576 million capital investment and 2,400 jobs combined), bode well for the area's long-term economic outlook. According to the Milken Institute, the county is the most concentrated high-tech economy in the state, and ninth in the nation. Tourism and related services, aided by the county's active cruise industry and recreational attractions, also provide stability. The American Association of Port Authorities, in 2013, listed Canaveral Port Authority as the second top passenger cruise port in the U.S. Also, major expansions at the airport, including Embraer, should infuse additional high-paying jobs into the area economy.

County population increased 46% during the 1980s, 19.4% in the 1990's and an estimated 14% between 2000 and 2010, to 542,687. Single family home sales are up significantly since 2007, but home values have only marginally increased over the period. The county still has significant housing inventory to absorb, even though foreclosure rates have shown improvement with one in every 649 homes in the county is in foreclosure (RealtyTrac, Dec. 2014), compared to one in every 546 for the state and one in every 1,153 for the nation. Wealth levels are above those for the state, and per capita income approximates that of the U.S. while median household income was 95% of the U.S.

The district's tax base has returned to a period of growth. The base had more than doubled between fiscal 2003 to the fiscal 2008 high of $41 billion, then declined 33% to $27.5 billion in fiscal 2013. The tax base has increased 13.5% over the past two fiscal years to $31.2 billion, with growth of 8.8% alone in the most current year (44% from new construction) indicative of the recovering economy. Going forward, school officials anticipate near term tax base growth in the 4% a year range, although state estimates are higher. Full value per capita continues to improve to $90,799 in fiscal 2015.

According to Moody's Economy.com (November 2014), the recovery in Palm Bay-Melbourne-Titusville will proceed slowly in the near term, although acceleration is not far off. The revival of the aerospace industry and the influx of shipping investment will power job gains and house price appreciation in the medium term, driving an overall rise in output and a recovery of wages and incomes. In the long term, low living costs relative to other Florida metro areas and rising demand for aerospace innovations will make the area an above-average performer in terms of employment and population growth.

ENROLLMENT STABILIZING; CAPITAL FUNDING NEEDS AIDED BY VOTER-APPROVED SALES TAX

The district's available funds to pay for capital funding are somewhat limited, but likely to remain manageable due to the approval of a new sales tax. Voters approved a new six-year, one-half cent sales tax in November 2014, which officials estimate will bring in about $33 million annually. This new revenue stream is key for the district, because it uses almost all of its 1.5 mill local property tax levy to pay debt service, has lowered its available cash balances, and in recent years was only able to fund basic renewal and replacement needs. The district has been dedicating more operating funds to provide for the district's more critical needs. Officials believe the new sales tax will significantly help with deferred maintenance, technology and security needs.

The district has 92 schools (including 10 charter schools) and 70,853 FTE students in fiscal 2015. District enrollment declined 3.3% since 2008 to 2013, but increased marginally in fiscal 2014 and 2015. The district has continually modified its capital program in light of declines in state and local capital funds. If enrollment trends continue on their most recent track and continue to increase, the district will need to supplement sales tax funds with impact fees and tax base growth to provide additional capital funds for new facilities. The 7-year (FY 13-19) $397.8 million CIP, which excludes the new sales tax, includes $268.7 million debt repayment and $129 million in basic projects funded primarily with capital outlay millage and carryforward funds. Obtaining voter-approval for a new sales tax is a positive credit factor.

Recently, officials have met class size reduction mandates with the exception of the October 1, 2013 student count. The district has designated each school as a choice school and as such the district need only meet class size requirements on a school-wide average basis as opposed to a class-by-class basis.

FINANCIAL OPERATIONS AND RESERVES: STABILIZING FINANCIAL POSITION; ADEQUATE RESERVES

We believe that given modest enrollment growth and likelihood of increased state funding and tax base growth, the district will maintain stable operations over the near term. District officials have taken appropriate steps to date to address anticipated budgetary imbalances and maintain adequate reserves. The district has performed well despite the loss of $79.3 million in General Fund revenues between fiscal 2008 and 2013 related to state cuts and a weakened economy, primarily as a result of timely budget adjustments and extension of the .25 mills critical millage. Operating deficits in fiscal 2012 and 2013, associated with loss of one-time funds and excess capital and self-insurance fund transfers, virtually eliminated gains in the prior two fiscal years, positioning reserves at almost 2009 levels.

For fiscal 2014, a $6.2 million operating surplus increased General Fund balance to $49.4 million, or 10% of revenues, and an unassigned fund balance of $44.7 million (including the $19.88 million contingency reserve), or 9.1% of revenues. In addition, cash position was moderate with $73.4 million in net cash and investments representing 14.9% of revenues. For fiscal 2015, the budget includes a $1.1 million use of reserves for a projected ending fund balance of $48.3 million, or 9.4% of revenues (including transfers). A total $7.1 million increase in health care, retirement and property insurance costs appears manageable given 4.1$ revenue growth. The $19.88 million contingency fund is expected to remain untouched. The contingency reserve policy is set at a minimum of 3.5%. Stabilizing financial operations is a credit positive.

Charter school growth over the past six years has not been significant, and currently accounts for about 5.6% of district enrollment. The district maintains $100 million in property insurance coverage, based on availability and cost, and is obtaining a waiver under the master lease requirements.

Liquidity

The district's net cash position at the close of fiscal 2014 was $73.4 million, or 14.9% of revenues.

DEBT SERVICE COVERAGE AND REVENUE METRICS: SEPARATE FUNDING SOURCE FOR COPs, ALTHOUGH HIGHLY LEVERAGED, IS FAVORABLE; GOOD LEGAL PROTECTIONS MITIGATES ANNUAL-APPROPRIATION RISK

The strength of the master lease program, the essential nature of the projects, and the ability to utilize a separate funding source for COP payments, albeit highly leveraged, provides strong appropriation incentive. Under terms of the Master Lease, the school board must budget and appropriate for all or none of the projects, a key legal provision considered in the Aa3 rating. Nearly half of the district's schools are on the master lease (in whole or in part), and about 75% of the projects in the master lease are asset-backed and 63% of students attend class in leased facilities. Under the Lease Purchase Agreement, the Superintendent shall include the funds necessary to make lease payments in the proposed budget, unless prior to fiscal year-end the school board gives notice of its intent not to appropriate for payments due in the following year. Given the essential nature of the financed projects, and the fact that COPs have been utilized as the district's primary financing vehicle, we believe that the risk of non-appropriation is minimal.

Lease payments are expected to be paid from proceeds of the district's discretionary 1.5 mill capital outlay levy. Prior to fiscal 2013, a state law allowed school districts to use up to 75% of their capital outlay levy (or 1.125 mills) for lease payments. The law was subsequently amended to exclude from the calculation, lease obligations entered into prior to June 30, 2009. All district new money COPs have been issued prior to 2009. Estimated maximum COP debt service of $38.7 million, is in relation to the $45 million generated by 1.5 mills from fiscal 2015 taxable values at a 96% collection rate, requiring the use of approximately 1.29 mills.

Lease payments are made five days prior to debt service payment dates on the certificates. There is no limit as to the number of projects in the master lease, and substitution of facilities with equal or greater value and remaining useful life is allowed. The Corporation has assigned its rights, title and interest in the lease to the Trustee, including the right to receive basic lease payments.

DEBT AND PENSIONS: MANGEABLE LEVEL OF DEBT; AFFORDABLE PENSION OBLIGATIONS

We believe that given a lack of borrowing plans, voter approval for the new six-year, one-half cent sales tax, and growing tax base, the district's debt profile will remain manageable. Continued enrollment growth and the lack of available capital funds, however, may require additional capital resources after the expiration of the sales tax. The district's 1.8% overall debt burden and debt service costs, at 6.3% of governmental expenditures, are modest. The district supports a sizable $472 million post-sale COP program, and anticipates no additional COP issuance, especially as they retain no capacity for further issuance. COP payout is below average with almost 39% of COPs repaid within 10 years, although 100% is due in 22 years.

Debt Structure

All the district's debt is fixed rate and amortizes over a 22-year period. The district has one privately-placed issue (Series 2008A for $56 million) with Dexia that is fixed rate and for the life of the COPs, with terms identical to those for all other COPs in the master lease.

Debt-Related Derivatives

The district has no exposure to auction rate securities, variable rate debt or swaps.

Pensions and OPEB

The district belongs to the highly-funded state-administered pension plan and pays its required 100% annual contribution. Beginning in fiscal 2012, members of the FRS were required to contribute 3% of their gross compensation to the pension plan. The district's annual required contribution (ARC) for the plan was $23.4 million in fiscal 2013, increasing appreciably to $29.9 million in fiscal 2014. The adjusted net pension liability for the district under Moody's methodology for adjusting reported pension data, is an above average 1.7 times operating revenues and 2.33% of full value. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans.

The district has an actuarially determined GASB 45 (OPEB) liability of $81.4 million (June 30, 2014) with an annual required cost of $7.6 million, but is currently funding a smaller $2.6 million (34.5%) pay-as-you-go portion annually.

For fiscal year 2014, health care, pension, OPEB and debt service costs were a manageable 17.7% of total governmental expenditures (with health care and pension costs representing 12.2% of General Fund expenses).

MANAGEMENT AND GOVERNANCE: LIMITED REVENUE-RAISING FLEXIBILITY

As reflected in the A Institutional Framework score, Florida school districts have a narrow revenue structure that is property tax and state aid dependent, with no ability to raise revenues under the statutory 10 mill limit, without voter approval. Expenditures are mostly personnel related, and state mandates for class size make ongoing cuts difficult and painful, although participation in the state's pension plan have moderated growth in fixed costs.

KEY STATISTICS

Lessor: Brevard School Board Leasing Corp.

Lessee: Brevard County School Board

Value of 1.5 Mills: $45 million (2015 tax roll at 96% collection rate)

Maximum Debt Service (all COPs): $38.7 million

Post Sale Certificates Outstanding: $471.8 million

Certificate Payout,

10 years: 38.8%

22 years: 100.0%

2015 Enrollment (FTE): 70,853

2010 Population: 542,687

2015 Full Valuation: $49.7 billion

Full Value Per Capita: $90,799

County Unemployment Rate, 10/2014: 6.3% (vs. 5.8% for state, and 5.5% for U.S.)

Debt Burden: 1.8%

County Median household Income as % U.S.: 95%

County Per Capita Income as % U.S.: 100%

FY 2014 Total General Fund Balance: $49.4 million (10% of General Fund revenues)

Fund Balance as % of Revenues, Fiscal 2014: 9.59%

5-Year Dollar Change in Fund Balance as % of Revenues: 3.30%

Cash Balance as % of Revenues, Fiscal 2014: 14.87%

5-Year Dollar Change in Cash Balance as % of Revenues: 1.16%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 1.0x

Net Direct Debt as % of FV: 1.1%

Net Direct Debt / Operating Revenues: 0.80x

3-Year Average ANPL as % of Full Value: 2.33%

3-Year Average ANPL / Operating Revenues: 1.70x

OBLIGOR PROFILE

Brevard County Schools is a district with an enrollment of about 70,853 students located on Florida's east coast.

LEGAL SECURITY

Certificates are secured by annually-appropriated lease payments from the School Board (lessee) to the School Board Leasing Corporation (lessor), and effectively paid from the district's capital outlay millage. The Issuer Rating is Moody's assessment of the district's overall credit quality.

USE OF PROCEEDS

Proceeds of the Series 2015B certificates will refund $13.2 million Series 2007B certificates for an estimated $1.3 million (9.93% of par) taken over the life of the issue. Proceeds of the Series 2015C certificates will refund $93 million Series 2007C certificates for an estimated $6.3 million (6.73% of par) taken over the life of the issue.

RATING METHODOLOGY

The principal methodology used in the lease-backed rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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