Brevard County School Board, FL

Moody’s assigns Aa3 to Brevard Co. SB’s (FL) $53.5M Refund. COPs 2017A

Summary Rating Rationale
Moody’s Investors Service has assigned Aa3 rating to Brevard County School Board’s (FL) $53.5 million Refunding Certificates of Participation (COPs), Series 2017A. Moody’s maintains a Aa3 rating on the board’s $ million outstanding COPs, and a Aa2 Issuer Rating on the district.

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 sizable, and recovering, property tax base; good financial position with moderate reserves and cash; and modest debt burden.

Credit Strengths
» Large, recovering tax base
» Strength of the master lease
» Low debt burden

Credit Challenges
» Below average fund and cash balances

Rating Outlook
Outlooks are not generally assigned to credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade
» Significant increase in fund and cash balance

Factors that Could Lead to a Downgrade
» Significant increase in debt
» Return to a declining tax base
» Declines in fund and cash balances

Key Indicators
Detailed Rating Considerations

Economy and Tax Base: Large, Recovering Economy on Florida’s East Coast

The district is coterminous with Brevard County, on Florida’s east coast, 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 was mitigated by 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 5.2% in November 2016, down from a high of 11.5% in 2010. The county benefits from a skilled labor pool, availability of land, and a favorable climate. Tourism and related services, aided by the county’s active cruise industry and recreational attractions, also provide stability. Wealth levels are above those for the state, and per capita income approximates that of the U.S. while median household income was 92.3% 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 20.7% over the past two fiscal years to $33.1 billion, with growth of 6.1% alone in the most current year indicative of the recovering economy. Full value per capita continues to improve and equaled $97,233 in fiscal 2016.

According to Moody’s Economy.com (November 2016), Palm Bay-Melbourne-Titusville will strengthen in the near term as multiple aerospace manufactures expand. More high wage jobs will support incomes and attract skilled workers to the metro area. Leisure/hospitality will provide an additional avenue of growth but will contribute less to wages. Job additions will surpass the U.S. average through the end of the decade but will lag Florida’s.

Financial Operations and Reserves: Adequate Financial Position Despite Recent Declines

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. In fiscal 2015, there was a small $2 million decline in available (unassigned plus assigned plus committed) fund balance, which decreased available fund balance to $45.3 million or an adequate 8.9% of general fund revenues. Unaudited statements for fiscal 2016 include a $45,000 surplus.

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The fiscal 2017 budget included a significant increase in state funding due to increased enrollment and management currently anticipates a small $1 million deficit. Ongoing or growing deficits could pressure the rating in future reviews.

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. This new revenue stream is key for the district, because it uses 1.2 of its 1.5 mill property tax levy to pay debt service and has a below average available cash balances. The district has been dedicating more operating funds to provide for the district’s more critical needs.

The district has 93 schools (including 10 charter schools) and 71,674 FTE students in fiscal 2016. District enrollment has increased marginally in each of the last two years. 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.

LIQUIDITY
The district’s cash position was $114.6 million or 18.3% of operating revenues.

Debt and Pensions: Average Debt and Pension Burdens
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 likely 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 0.8% net direct debt burden is average. The district supports a sizable $442 million post-sale COP program, and anticipates no additional COP issuance, especially as they retain no capacity for further issuance. COP payout is average with almost 73.5% of COPs repaid within 10 years.

DEBT STRUCTURE
All the district’s debt is fixed rate. 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 million in fiscal 2015. The 3-year average adjusted net pension liability for the district under Moody’s methodology for adjusting reported pension data, is an average 1.23 times operating revenues and 1.96% 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 $40.9 million (June 30, 2015).

For fiscal year 2015, pension, OPEB and debt service costs were a manageable 8% of total governmental expenditures.

Management and Governance
Florida school districts have an institutional framework score of “A,” or moderate. Revenues consist primarily of property taxes and state aid, which in combination are moderately predictable. Revenue raising ability is also moderate, given districts’ legal ability to levy property taxes up to a maximum rate of 10 mills with voter approval. Expenditures are mostly personnel related, which are highly predictable. Expenditure reduction ability is moderate. State mandates for class size make ongoing cuts difficult, although participation in the state’s pension plan have moderated growth in fixed costs.

Legal Security
The COPs are secured by the board’s annually-appropriated lease payments and are typically paid from, but not secured by, a portion of the district’s capital outlay funds available for this purpose. There is no debt service reserve on this issue, the same as with all issues under the board’s master lease.
Use of Proceeds
Proceeds of the 2017A COPs will be used to refund $58.2 million Series 2007B COPs.

Obligor Profile
Brevard County School District is coterminous with Brevard County and is located on Florida’s east coast.

Methodology
The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. An additional methodology used in this rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

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<thead>
<tr>
<th>Brevard County School District, FL</th>
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<td><strong>Issue</strong></td>
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<tr>
<td>Refunding Certificates of Participation, Series</td>
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Source: Moody’s Investors Service
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