MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns MIG 1 to Broward Co. School District (FL) $125M TANs

Global Credit Research - 10 Sep 2015

Affirms Aa3 GO rating and A1 COP rating; outlook stable

BROWARD COUNTY SCHOOL DISTRICT, FL
Public K-12 School Districts
FL

Moody's Rating

ISSUE	RATING
Tax Anticipation Notes, Series 2015	MIG 1

Sale Amount	$125,000,000
Expected Sale Date	09/18/15
Rating Description	Note: Tax and/or Revenue Anticipation

Moody's Outlook STA

NEW YORK, September 10, 2015 --Moody's Investors Service has assigned a MIG 1 rating to Broward County School District's (FL) $125 million Tax Anticipation Notes, Series 2015, dated October 13, 2015 and maturing January 29, 2016. Concurrently, we have affirmed the district's Aa3 Issuer and General Obligation rating on $167 million of GO debt and A1 rating on $1.6 billion of Certificates of Participation (COPs) issued by Broward County School Board. The outlook is stable.

SUMMARY RATING RATIONALE

The highest short-term MIG 1 rating is based on early set-aside of a satisfactory level of funds for note repayment and comfortable anticipated cash margins at the time of note set-aside. The district's ample available alternate liquidity is an additional credit factor adding strong support for the notes.

The Aa3 GO rating reflects modest reserve and liquidity levels, and financial challenges going forward. The rating also reflects the District's recovering economy, manageable debt burden and modest financial improvement.

The A1 rating on the COPs reflects the significant amount of lease payments made from the capital outlay millage, which has had a negative impact on funding both long-term and short-term capital needs, as well as the underlying credit quality, on which the COP rating is dependent. Additionally, the COP rating reflects favorable legal provisions that include a master lease which requires appropriation for all or none of the projects that the district has funded through COPs, and the cross default provision for all series issued under the lease, as well as the overall essential nature of these projects, and an available separate funding source for repayment.

OUTLOOK

The stable outlook reflects the recovering economy, expected financial improvement, and the sizeable and diverse tax base.

WHAT COULD MAKE THE RATING GO UP

-Material improvement in district's cash and reserve positions

WHAT COULD MAKE THE RATING GO DOWN

-Rapid depletion of cash

-Further financial deterioration

STRENGTHS

-Reasonable cash flow projections

-Significant funds available at final set aside

-Set aside 21 days prior to note maturity

-Large and diverse tax base

-Recovering economy

-Manageable debt

CHALLENGES

-District's ability to maintain an adequate level of reserves

RECENT DEVELOPMENTS

Recent developments are included in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE AND DIVERSE ECONOMIC BASE; IMPORTANT COMPONENT OF SOUTH FLORIDA ECONOMY

The district is coterminous with Broward County (Aaa stable), which has expanded despite being mostly built-out. The county's economy and tax base continues to rebound from the recession, and the county's economic diversity provides a solid foundation for strong long-term credit quality. The 5.1% county unemployment rate (June 2015) is below both the state (5.5%) and the nation (5.5%). Major employers are primarily government, healthcare and higher education, although tourism continues to be an important economic component.

The county's active port and airport are a catalyst in economic activity. Over 90% of local jobs are reportedly in the service area, and small businesses provide a level of economic diversity and stability. Foreclosure activity remains above average but home sales and prices are improving.

The tax base had increased over 92% since fiscal 2003 to almost $176.8 billion in fiscal 2008, before declining a total of 23.3% to $135.6 billion in fiscal 2012, indicative of housing value declines and a steep drop in construction. In the last four years through fiscal 2016, assessed values have increased 21.4% (including the 7.3% improvement in fiscal 2016 alone) to $164.7 billion.

According to Moody's Economy.com (July 2015), a bevy of construction projects and spillover growth from Miami will enable the Fort Lauderdale-Pompano Beach-Deerfield Beach region to outpace the nation in the near term. Proximity to Miami will also be an asset in the long term, as will robust tourism, above-average population gains relative to the nation's, and steadily increasing international trade.

The district operates one of the largest fully-accredited school districts and sixth largest (by enrollment) school system in the nation (second largest in the state) with over 264,000 students in 228 schools and 104 charter schools. Although total district enrollment has slowly increased since 2010, improvement has been in charter schools which now includes over 40,709 students, or about 15.4% of the student population, with district enrollment (excluding charters) increasing marginally in the current year for the first time in several years. Officials had been unable to meet class size reduction mandates from 2010-2014, with penalties as high as $8.7 million in 2012; however, the district was compliant in 2015.

The teachers union filed a grievance against the district related to high school teachers teaching a sixth period. The motion was ruled in favor of the union by an arbitrator, requiring an additional compensation award of $31 million for teachers. The district is required to pay the $31 million over a 5-year period, with an initial $7 million paid in fiscal 2014, and the remaining $24 million paid in annual $6 million installments over the next four years.

FINANCIAL OPERATIONS AND RESERVES: MODEST RESERVE POSITION EXPECTED TO REMAIN STABLE

While reserves, dictated by Board policy, are narrow for the rating level, they are stable and are unlikely to decline from current levels. Officials have a policy of maintaining unreserved/undesignated General Fund balance at a level of 3.0% (notification to Board required if it falls below 3.5%).

In fiscal 2014, the district realized a significant $61.9 million operating surplus, $54.3 million of which is attributable to an increase in transfers related to collapsing the health insurance and workers compensation fund into the General Fund, although these amounts are committed in fund balance for those purposes only. Although the assigned/unassigned balance increased by $11 million to $80.3 million (4.2% of revenues), unassigned balance declined $9 million to $50.2 million, or 2.5% of revenues. The state uses General Fund revenues, excluding transfers and charter school payments, to calculate the percentage of assigned/unassigned balance against the state's minimum 3% requirement. On this basis, the district's 2014 assigned/unassigned balance equates to 4.8%.

Unaudited fiscal 2015 results include a $17 million increase in total fund balance, bringing assigned/unassigned balance to $82.8 million, but given the increase in budget size, reserve levels still remain modest. Based on the state's calculation, assigned/unassigned fund balance equals 5% of revenues. The district's finances likely will be challenged by charter school growth, class size reduction mandates, and penalties associated with a grievance filed by the teachers union.

CASH FLOW: CONSERVATIVE PROJECTIONS, ADEQUATE CASH AT SET ASIDE

We believe that the cash flow assumptions, which are based on the state's adopted budget and fiscal 2016 preliminary certified tax roll, are reasonably sound and provide sufficient margin to ensure timely note repayment. Cash disbursements are consistent with historical patterns.

Fiscal 2016 receipts are 2% higher than 2015 actuals, due primarily to growth in property tax revenues driven by a 7.3% increase in assessed value and increased state aid. Disbursements are projected to increase by 3.9% primarily due to a $78 million increase in salaries and benefits reflecting the third year of the teachers' contract. Year-end cash is projected to decline slightly from $287 million to $260 million, reflecting conservative estimates.

The cash balance after note set-aside of $380 million, equates to 17% of total estimated receipts, and provides 3.0 times additional coverage for notes at that time. Year-end cash of $260 million equates to 11.8% of total estimated receipts. We believe that there's a sufficient margin of protection at the time of note set-aside to adequately provide for potential unexpected budget irregularities.

District officials have the ability to borrow from other funds, if needed, on a short-term basis. Officials indicate that average monthly balances in the Capital Projects Fund (CPF) and self-insurance funds, reportedly available for alternate liquidity, total over $100 million.

DEBT, PENSIONS AND LEGAL COVENANTS: SIGNIFICANT ADDITIONAL BORROWING CAPACITY APPROVED IN NOVEMBER; DEBT AND PENSION BURDENS WILL REMAIN MANAGEABLE

The district's 0.9% debt burden likely will remain manageable despite the additional debt anticipated. Last November, district voters approved $800 million in general obligation bonds for various capital needs. The district issued the first tranche of this debt in June and expects to issue this debt annually over the next five years. No additional COPs are anticipated. The district's $2.4 billion five year capital plan will be paid primarily from the capital outlay millage ($1.2 billion) and general obligation debt ($800 million). The remaining projects will be funded from state grants and reserves.

Legal Covenants

The notes are secured by a pledge of the district's operating ad valorem taxes levied and collected in 2015-2016. Notes are additionally payable from but not secured by other legally available non-ad valorem funds. The district covenants to set aside proceeds for note repayment 21 days prior to maturity, in a segregated Sinking Fund.

The COPs are subject to annual appropriation and all district current revenues are available for repayment, although they are effectively repaid from a portion of a 1.5 mill capital outlay millage. There are no debt service reserves on outstanding COPs and there is no limit to the number of projects allowed under the master lease.

Debt Structure

The County School Board has two variable rate COP issues (Series 2014A and 2006B) that total $179.13 million, or 11% of total COPs outstanding. The 2014A COP issue is a floating rate note with Bank of America/US Bank for $114.1 million through February 27, 2017; and the 2006B COP is a direct placement with PNC Bank NA for $65 million, expiring September 14, 2015; both require extension or renewal and management plans to close on a remarketing of the PNC Bank NA facility by maturity. There is also a $44.5 million, Series 2012B fixed rate COP issue that was a direct purchase from Bank of America NA, that goes for the life of the COP (July 1, 2021).

Debt-Related Derivatives

The Broward County School Board has entered into two synthetically-fixed LIBOR swap agreements. The first, with JP Morgan Chase NA, is for the $65 million Series 2006B COPs in effect through June 30, 2031 (bond maturity). Under this agreement, the Board pays a fixed 4.131% annual rate to the counterparty, and receives a variable rate swap payment based on 70% of LIBOR. The second synthetic swap agreement is with Citibank NA for the $113.8 million Series 2004D (now 2014A) COPs in effect through July 1, 2029 (bond maturity). Under this agreement, the Board pays a fixed 3.85% annual rate to the counterparty, and receives a variable rate payment based on 67% of LIBOR. The swaps are insured by Assured Guaranty Corp.

Swap payments are on parity to COP debt service payments. Early termination is optional for the Board only. Termination by the counterparty depends upon specified termination events occurring, including rating deterioration and cross default of the board. A termination payment would be subordinate to the COP debt service payments and payable from capital outlay millage revenues.

Both swaps also require the counterparty to post collateral (U.S. Government Securities) if the counterparty's credit rating goes below A1, with the swaps reaching predetermined threshold amounts. There is no requirement for the Board to post collateral. Rating triggers for termination are dual, downgrades below Baa1 for the District and A3 for the insurer (Assured). A recent (August 28, 2015) mark-to-market analysis indicates that combined, termination of the swaps would require the Board to pay a total termination payment of about $45.7 million. This exposure is in relation to the district's $272.9 million in General Fund cash and investments at the end of fiscal 2014, and a $86.8 million capital reserve.

Pensions and OPEB

The district belongs to the state-administered Florida Retirement System (FRS) pension plan and pays its required 100% annual contribution. Contributions have remained manageable and have not pressured district operations. The state plan's liability is highly funded at about 85.4%. 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 $123.5 million in fiscal 2014, up 40.5% from $87.9 million in fiscal 2012 (including employee contributions). An increase of about $4 million is anticipated in fiscal 2015.

The three-year average adjusted net pension liability for the district under Moody's methodology for adjusting reported pension data, is $4.5 billion, or a moderate 2.2 times operating revenues (2.18% 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.

Officials have reported an estimated $163.3 million unfunded liability related to GASB 45 (OPEB), with a fiscal 2014 cost of $17.4 million and the district funding at a reduced level ($7.2 million), reflecting pay-go requirements. Fiscal 2014 pension, health care, OPEB and debt service costs were 18.2% of operating revenues.

MANAGEMENT AND GOVERNANCE

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.

District management is conservative and often outperforms budgeted assumptions and cash flow projections.

KEY STATISTICS

-Full Value: $206 billion

-Full value per capita: $114,059

-Median family income as % of US: 99.4%

-Available fund balance as a % of revenues: 6.6%

-5-year dollar change in available fund balance as a % of revenues: 2.8%

-Cash balance as a % of revenue: 13.4%

-5-year dollar change in cash as a % of revenues: 4.5%

-Institutional Framework: A

-Operating History: 5-year average of operating revenues/operating expenditures: 1.01x

-Net direct debt/full value: 0.91%

-Net direct debt/operating revenues: 0.91x

-3-year average Moody's ANPL/Full Value: 2.18%

-3-year average Moody's ANPL/operating revenues: 2.2x

OBLIGOR PROFILE

The district is coterminous with Broward County in south Florida.

LEGAL SECURITY

The notes are secured by a pledge of the district's operating ad valorem taxes levied and collected in 2015-2016. Notes are additionally payable from but not secured by other legally available non-ad valorem funds.

USE OF PROCEEDS

Proceeds will provide cash for operating purposes.

PRINCIPAL METHODOLOGY

The principal methodology used in rating the Long Term Issuer and General Obligation Rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in rating the Tax Anticipation notes was Short-Term Cash Flow Notes published in April 2013. The principal methodology used in rating the lease backed debt 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 these methodologies.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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