FitchRatings

Fitch Rates Manatee County School Board, FL's $150MM Sales Tax Revs at 'A-'; Outlook Stable

Fitch Ratings-New York-23 January 2017: Fitch Ratings has assigned an 'A-' rating to the following debt to be issued by the Manatee County School Board, FL:

--$150 million sales tax revenue bonds, series 2017.

The bonds are scheduled to sell on a negotiated basis on or about Jan. 31. Bond proceeds will be used to finance various school construction projects.

The Rating Outlook is Stable.

SECURITY
The sales tax revenue bonds are payable from the proceeds of the half-cent school capital outlay sales surtax collected within Manatee County and distributed to the district by the State of Florida Department of Revenue.

KEY RATING DRIVERS

The 'A-' rating on the sales tax revenue bonds is capped by the district's Issuer Default Rating (IDR), which is 'A-'/Stable Outlook. Pledged revenues provide solid debt service coverage, expected growth prospects and resilience through a moderate economic downturn scenario.

RATING CAPPED BY DISTRICT IDR: Fitch establishes a rating cap on the sales tax revenue bonds equal to the district IDR. The rating cap reflects Fitch's view that pledged revenues would not be viewed as special revenues under the Chapter 9 federal bankruptcy code and may be vulnerable to impairment in a bankruptcy.

SOUND COVERAGE LEVELS: Fiscal 2016 revenues continued to provide sound coverage of maximum annual debt service (MADS) when evaluated again the worst consecutive historical revenue decline and output of the Fitch Analytical Sensitivity Tool (FAST), which indicates potential revenue loss in a moderate economy downturn. Pledge revenues have notably recovered since the great recession; sales tax revenue growth is expected to continue at a solid pace going forward.

Economic Resource Base
The Manatee County School Board is coterminous with Manatee County (IDR 'AAA'/ Stable Outlook), encompassing 740 square miles on the Florida Gulf Coast. The school board operates 53 schools and has experienced relatively steady growth in enrollments. Population growth has been robust with a 2015 population of 363,369, up 12% since the 2010 census. The local economy is diversified among services, retail, manufacturing, agriculture and tourism. Unemployment levels have improved from its recessionary peak with current rates below the state and nation. Wealth levels exceed the state average but trail the nation. Assessed values have experience significant growth in the past few years, benefiting from the recovering economy and rising residential home values. Two major road projects are expected to bolster the economy and spur additional development.

Revenue Framework: 'a' factor assessment
The district's revenue framework reflects its favorable revenue growth prospects driven by continued expansion of its population and enrollment. The positive growth factors are tempered by the district's dependence on state-determined revenues and the absence of independent revenue raising ability.

Expenditure Framework: 'a' factor assessment
The district's instructional costs are the major driver of spending. The district has been constrained by the state class size requirements which have been a source of pressure with rising enrollments. Fixed costs associated with debt and retiree benefit liabilities are moderate.

Long-Term Liability Burden: 'aaa' factor assessment
The district's liability burden should remain low given manageable debt plans, rapid debt repayment and its participation in the adequately funded state pension plan.

Operating Performance: 'bbb' factor assessment
The district has experienced a period of recurring net operating deficits that resulted in a notable decline in reserves. District management has enacted measures to control costs, improve internal controls and more accurately monitor budgetary spending, which has resulted in the restoration of fund balance providing for enhanced gap closing ability going forward.

RATING SENSITIVITIES
DISTRICT IDR CAP: The sales tax revenue bond rating is sensitive to shifts in the district's general quality as expressed in the IDR. Given the rating cap of the IDR, it is unlikely that pledged revenue performance will result in a downgrade.

CREDIT PROFILE

Sound Sales Tax Coverage; Sales Tax Levy Extended Through 2032

Fiscal 2016 sales tax revenues of approximately $30 million provided coverage of MADS on outstanding plus series 2017 debt by 2.4x. In November 2016, county residents approved an extension of the existing school capital outlay discretionary surtax levy which was previously set to expire on Dec. 31, 2017. With the extension, the additional bonds test (ABT) was strengthened to 1.5x from 1.25x.

The tax levy will continue for an additional 15 years, through Dec. 31, 2032. The series 2017 bonds will be issued on parity with the district's existing series 2005 and series 2012 bonds, which will be repaid on Oct. 1, 2017. The final maturity on the series 2017 sales tax revenue bond is Oct. 1, 2032, two months prior to the expiration of the tax.

Pledged Revenues Demonstrate Solid Growth Prospects and Resilience

Sales tax revenues grew at a 2.7% compound annual growth rate (CAGR) from fiscal 2006 to fiscal 2016, a level that exceeded the rate of inflation but trailed national GDP growth. Fitch believes the pace of revenue growth will remain above the rate of inflation, consistent with an 'aa' assessment.

To evaluate the sensitivity of the pledged revenue stream, Fitch considers both the revenue sensitivity results (using a 1% decline in a national GDP stress scenario) and the largest consecutive revenue decline. Based on fiscal 2003 to fiscal 2014 revenue history, FAST generates a 3.6% revenue decline in a moderate economic downturn scenario. The largest consecutive decline of historical revenues was 14.8% from fiscal 2008 to fiscal 2010, reflecting the outsized impact of the great recession on the Florida economy. Sales tax revenue collections have since recovered, with a 5.6% CAGR from fiscal 2011 through fiscal 2016.

Based on the current debt service coverage level, the structure could tolerate roughly a 58% decline in revenues before MADS coverage would reach 1x. This level of tolerance is equivalent to about 16x of the FAST results and nearly 4x the largest consecutive revenue decline during the review period. These results are consistent with an 'aaa' assessment. Assuming leverage to the ABT, pledged revenues could tolerate a 33% decline before reaching 1x MADS coverage, which would be equal to 9x the FAST result or 2x the largest revenue decline consistent with an 'a' resilience assessment. Fitch does not believe this level of issuance is likely, as the district has no debt plans and could issue a sizable amount without reaching the ABT. Therefore absent the IDR cap, Fitch believes the structure could support a higher rating.

Issuing Entity Exposure
The ratings on the sales tax revenue bonds are capped by the IDR of the district, as Fitch believes the pledged revenues do not constitute special revenues under Chapter 9 of the U.S. Bankruptcy Code.

For more information about the district's IDR, please see the press release dated Sept. 13, 2016 at www.fitchratings.com.

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

Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
(https://www.fitchratings.com/site/re/879478)

Additional Disclosures

Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1017918&cft=0)
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