FitchRatings

Fitch Rates Broward County School Board Leasing Corp., FL's Refunding COPs at 'A+'; Outlook Stable

Fitch Ratings-New York-04 December 2017: Fitch Ratings has assigned an 'A+' rating to the following Broward County School Board Leasing Corporation, FL certificates of participation (COPs):

--$57 million certificates of participation series 2017B;
--$153 million certificates of participation series 2017C.

In addition, Fitch has affirmed the following Broward County School District (the district) ratings:
--the county's Issuer Default Rating (IDR) at 'AA-';
--$148 million in outstanding general obligation bonds at 'AA-';
--$1.4 billion in outstanding COPs issued by the Broward County School Board Leasing Corporation at 'A+'.

The Rating Outlook is Stable.

The COPs will be sold on a negotiated basis on or about December 14. The proceeds will be used to refund the outstanding series 2009A-BAB (Federally Taxable-Direct Payment-Build America Bonds) and series 2011A and series 2012A COPs.

SECURITY

The COPs are secured by lease payments subject to annual appropriation by the Broward County School Board (the school board) under a master lease-purchase agreement with the corporation. Upon certain events of default or the school board's failure to appropriate funds, all leases under the master lease will terminate, and the school board is required to immediately surrender possession of all facilities subject to the master lease.

ANALYTICAL CONCLUSION

The 'AA-' IDR reflects the district's slow revenue growth prospects, limited independent ability to raise revenues, solid expenditure flexibility, and satisfactory reserve position with the inclusion of available funds outside the general fund. Long-term debt and pension liabilities are low relative to personal income. Carrying costs associated with pension, other post-employment benefits (OPEB), and debt service spending are moderate.

The 'A+' 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

The district is the sixth largest school district in the United States and second largest in Florida, situated on Florida's Atlantic coast between Miami Dade and Palm Beach counties. Broward County is home to 31 incorporated municipalities including Fort Lauderdale, Coral Springs, and Hollywood, and ranks as Florida's second largest county, with an estimated 2016 population of nearly 1.9 million. In FY 2017 the district served an estimated 271,105 students from pre-kindergarten through 12th grade. Charter school enrollment in the same fiscal year totaled 45,365 or approximately 17% of the total student population. Non-charter enrollment has been flat in recent years and Fitch expects that trend to continue. Charter school enrollment has picked up in recent years but is projected to stabilize. The county's population has increased by over 9% since the 2010 census.

KEY RATING DRIVERS

Revenue Framework: 'bbb'

District revenues are comprised of a combination of state aid and local property taxes. Revenue growth is expected to remain slow due to flat enrollment trends. 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'

The natural pace of spending growth is likely to remain in line with or marginally above revenues. The district enjoys solid expenditure flexibility due to its moderate fixed carrying costs and ability to control labor costs and staffing levels. The district's carrying costs are equal to 10% of total governmental spending.

Long-Term Liability Burden: 'aaa'
The district's current long-term liability burden is low relative to personal income. Planned new debt is not expected to materially change the burden on the district's resource base. The district participates in the adequately-funded Florida Retirement System (FRS).

Operating Performance: 'a'
The district has historically maintained sound financial operations. Fitch believes that the district will continue to maintain reserves at levels sufficient to provide strong gap closing ability throughout economic cycles.

RATING SENSITIVITIES

MAINTENANCE OF FINANCIAL FLEXIBILITY: The rating is sensitive to the district's ability to maintain solid expenditure flexibility, affordable long-term liabilities, and a sufficient reserve safety margin throughout economic cycles.

CREDIT PROFILE

The county has a diversified economy with a balance among technology, manufacturing, financial services, tourism, construction and retail trade. The top employers include the district and the county as well as Memorial Healthcare System, Broward Health and Nova Southeastern University. County wealth levels are comparable to state and national averages. Following the recession, the county has experienced a sustained period of recovery evidenced by consistent job growth and a rebound in home values reflected in solid tax base expansion since fiscal 2013. Taxable assessed value (TAV) has exceeded 7% annually in fiscal years 2015-2018. The housing market has nearly recovered and continues to improve following a precipitous decline during the recession, according to data from Zillow.com. The lack of developable land limits the district's prospects for long-term population growth.

Following the recent hurricanes (Harvey, Irma & Maria), the district has seen an increase in enrollment from Puerto Rico, the U.S. Virgin Islands and other Caribbean islands, as well as the Florida Keys and Texas, resulting in a notable rise in new students estimated at 850. District officials indicate a majority of the students are enrolling into its traditional schools which could result in an adjustment to the FEFP funding. The district still remains in compliance with class size mandates. The charter schools have also seen an increase in enrollment, although at a lower rate. Fitch believes the recent increase in enrollment after the hurricanes will be temporary and may partially reverse as storm damage is repaired.

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 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% to 2% increase for fiscal 2017 and fiscal 2018. 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.

The district's non-charter student enrollment has been flat since 2010. Fitch's expectations for continued flat enrollment are based on historical trends in both non-charter and charter schools. Charter schools have experienced gains in student enrollment in recent years but their enrollment growth is projected to stabilize, due to the lack of developable land and availability of school choice and magnet programs at the non-charter schools.

These enrollment trends have contributed to slow general fund revenue growth. Over a 10-year historical period through fiscal 2016, revenue increases did not keep up with inflation. Going forward, Fitch expects the natural pace of revenue growth to be in line with inflation given expected continued stable enrollment and state funding growth at about the rate of inflation. Fitch believes the increase in enrollments following the recent hurricanes will not have a long term impact on the district's revenue growth prospects.

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

Instructional costs, including salaries and benefits, comprise the vast majority of district expenditures.

Fitch expects expenditure growth to be in line with to moderately above expected revenue growth based on the district's current spending profile, reflecting enrollment-driven spending needs largely funded by related increases in state controlled per-pupil 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. State class size requirements also can impact personnel decisions, however the district continues to meet its minimum class size mandates. The district's moderate carrying costs (10% of total government spending) and ability to reduce administrative personnel along with other cuts if needed, afford the district some spending flexibility. Wages and benefits are collectively bargained between the district and unions representing teachers and support staff. Under Florida law, a bargaining impasse is ultimately resolved by action of the governing body of the local government following the conclusion of a non-binding mediation process. In order to address prior declines in revenue, the district has used many strategies to reduce spending--hiring and purchasing freezes, reduce capital outlay, contract service reductions-- and Fitch believes they would use such strategies again if needed.

Long-Term Liability Burden

Fitch estimates the district's combined debt and pension liability burden to be low, at approximately 5% of personal income. The district's has $800 million in bond authorization, of which $645 million remains and is expected to be issued in separate tranches over the next five years. The additional debt is unlikely to increase liabilities above a level consistent with an 'aaa' assessment. Current principal amortization is estimated at a rate of 62% in 10 years.

The district participates in the Florida Retirement System. The district's ratio of pension assets to liabilities is adequate at 92%, or 75% using a Fitch-adjusted 6% investment rate of return assumption (as of the June 30, 2015 measurement date). The district's liability related to other post-employment benefits (OPEB) is less than 1% of personal income.

While any legally available revenue can be used for COPs debt service, the district has historically made payments from the 1.5-mill capital outlay tax. Debt service on COPs requires 52% or 0.79 mills in fiscal 2017 and maximum annual debt service requires 0.90 mills to, assuming a 96% tax collection rate.

Florida passed legislation in July 2017 (HB 7069) that requires districts to allocate a portion of the capital outlay millage on a per student basis to support eligible charter schools within the district. The district currently estimates this legislation will cost between $87 million and $100 million over the next five years ($13 million in FY 2018), which will have a manageable impact on the funding for the capital budget for technology, maintenance, other capital improvements, buses and vehicles. The district's current multi-year capital plan incorporates the annual allocation of the capital outlay millage. HB 7069 also includes other provisions that could result in the diversion of certain program funding to charter schools. The district, along with 13 other school boards, filed a lawsuit challenging the constitutionality of HB 7069 in Oct. 2017.

Operating Performance

The Fitch analytical sensitivity tool (FAST) indicates that the district's revenues are moderately sensitive to a recessionary decline. Fitch expects the district to respond to revenue declines as it has in the past, by reducing spending and using reserves, while maintaining an adequate level of fundamental financial flexibility. Flexibility is augmented by available balances outside the general fund, specifically capital funds available for certain outlays such as property insurance, maintenance, etc. recorded in the general fund, which boosts available reserves above the unrestricted general fund balance of 7% of general fund spending in fiscal 2016. This is consistent with an 'a' assessment of financial resilience. 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.

During and following the most recent economic recession the district addressed decreased property tax revenues and lower levels of state aid though expenditure reductions, but also relied on reserve draws to balance the budget and ensure that priority instructional spending needs were being met.

Management estimates an $11 million increase to general fund balance for fiscal 2017, with unrestricted general fund reserves relative to spending similar to the fiscal 2016 level of just under 7%. The district's fiscal 2018 adopted general fund budget is less than 3% higher than the prior year's budget, reflecting a modest increase in FEFP funding, and a continued rise in instructional costs. The 2018 budget does not incorporate any use of fund balance. Fitch believes that the district will continue to maintain general and other available fund balances at a level that together exceed the amount needed to maintain an 'a' financial resilience assessment.

The district did not experience significant damage due to Hurricane Irma. The district's estimated cost for the preparation, emergency repair, and cleanup associated with the storm is $18 million (equal to less than 1% of total government spending). The district has more than sufficient resources within its capital reserve fund to manage such costs without impact to its budget and plans to recoup its costs from FEMA and/or insurance policies.

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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.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 31 May 2017)
(https://www.fitchratings.com/site/re/898466)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/site/dodd-frank-disclosure/1033359)
Solicitation Status (https://www.fitchratings.com/site/pr/1033359#solicitation)
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