MOODY'S
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New Issue

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Broward County School District, FL

New Issue - Moody's Assigns Aa3 to Broward CSD, FL's $212M COPs; outlook stable

Summary Rating Rationale

Moody's Investors Service assigns Aa3 to Broward County School District, FL's $58.1 million Certificates of Participation, Series 2017B and $153.5 million Certificates of Participation, Series 2017C. Moody's maintains the Aa2 Issuer and General Obligation rating on $148 million of outstanding GO debt, and the Aa3 rating on $1.4 billion of Certificates of Participation (COPs) issued by the Broward County School Board. The outlook on the debt is stable.

The Aa3 rating reflects an improved but still modest reserve position, sizeable and diverse tax base, and manageable debt and pension burdens.

Credit Strengths

» Very large and diverse tax base that continues to recover

» Manageable debt burden

Credit Challenges

» Narrow reserve levels for the rating category

Rating Outlook

The stable outlook on the long-term debt reflects our expectation of continued stability in the district's financial position as well as the recovering economy.

Factors that Could Lead to an Upgrade

» Significant improvement in fund balance

Factors that Could Lead to a Downgrade

» Ongoing declines in fund balance

Key Indicators

Exhibit 1

Broward County School District, FL	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$176,513,340	$176,523,139	$184,358,344	$204,209,773	$223,075,739
Population	1,761,993	1,784,889	1,815,269	1,843,152	1,843,152
Full Value Per Capita	$100,178	$98,899	$101,560	$110,794	$121,029
Median Family Income (% of US Median)	96.5%	95.1%	94.7%	93.6%	93.6%
Finances					
Operating Revenue ($000)	$2,230,622	$2,308,720	$2,499,223	$2,496,050	$2,573,315
Fund Balance ($000)	$68,595	$76,032	$134,382	$140,234	$150,918
Cash Balance ($000)	$314,863	$309,771	$429,734	$614,337	$525,880
Fund Balance as a % of Revenues	3.1%	3.3%	5.4%	5.6%	5.9%
Cash Balance as a % of Revenues	14.1%	13.4%	17.2%	24.6%	20.4%
Debt/Pensions					
Net Direct Debt ($000)	$1,851,336	$1,763,511	$1,698,798	$1,808,952	$1,701,631
3-Year Average of Moody's ANPL ($000)	$3,064,715	$3,887,032	$4,113,409	$3,451,047	$2,998,672
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	0.7x	0.7x
Net Direct Debt / Full Value (%)	1.0%	1.0%	0.9%	0.9%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.4x	1.7x	1.6x	1.4x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.7%	2.2%	2.2%	1.7%	1.3%

Source: Moody's Investors Service, Audited Financial Services

Detailed Rating Considerations

Economy and Tax Base: Large Base Remains an Important Component of the South Florida Economy

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 271,000 students in 233 schools and 101 charter schools. The district's size is linked to its being 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 economic diversity provides a solid foundation for strong long-term credit quality. The 3.3% county unemployment rate (September 2017) is below the state (3.6%) and the nation (4.1%). 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 for 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 remains slightly below the pre-recessionary high, but has experienced strong growth in recent years, averaging 7.2% annual growth over five years. As of fiscal 2018, total market value equaled a very large $262.1 billion, well above the median for the rating category.

Enrollment growth remains manageable as a portion of new growth has been in charter schools, which is estimated at about 10% of the student population.

Financial Operations and Reserves: Modest Reserve Position Expected to Remain Stable

Following multiple years of fund balance growth, reserves, which are dictated by board policy, will remain stable and are unlikely to decline from current levels. Officials have a policy of maintaining unassigned/undesignated general fund balance at 3% (notification to board required if it falls below 3.5%). Fiscal 2016 audited results included a $17.7 million increase in total fund balance, bringing assigned/unassigned balance to $88 million or 4.2% of revenues. The surplus was primarily due to savings in administrative expenses. Unaudited fiscal 2017 results are for an $4.5 million surplus in assigned/unassigned fund balance.

The fiscal 2018 tentative budget increased 2.5% due to salary increases, special education, charter schools, class size reduction and health insurance. The budget was balanced with an increase in ad valorem tax revenue because of growth in assessed value and additional state aid of $46 million. The budget is balanced without the use of fund balance. So far, the district is on track with the budget.

Long term, the district's finances likely will be challenged by charter school growth and penalties associated with a grievance filed by the teachers union. However, improving taxable values and conservative management will help offset those pressures.

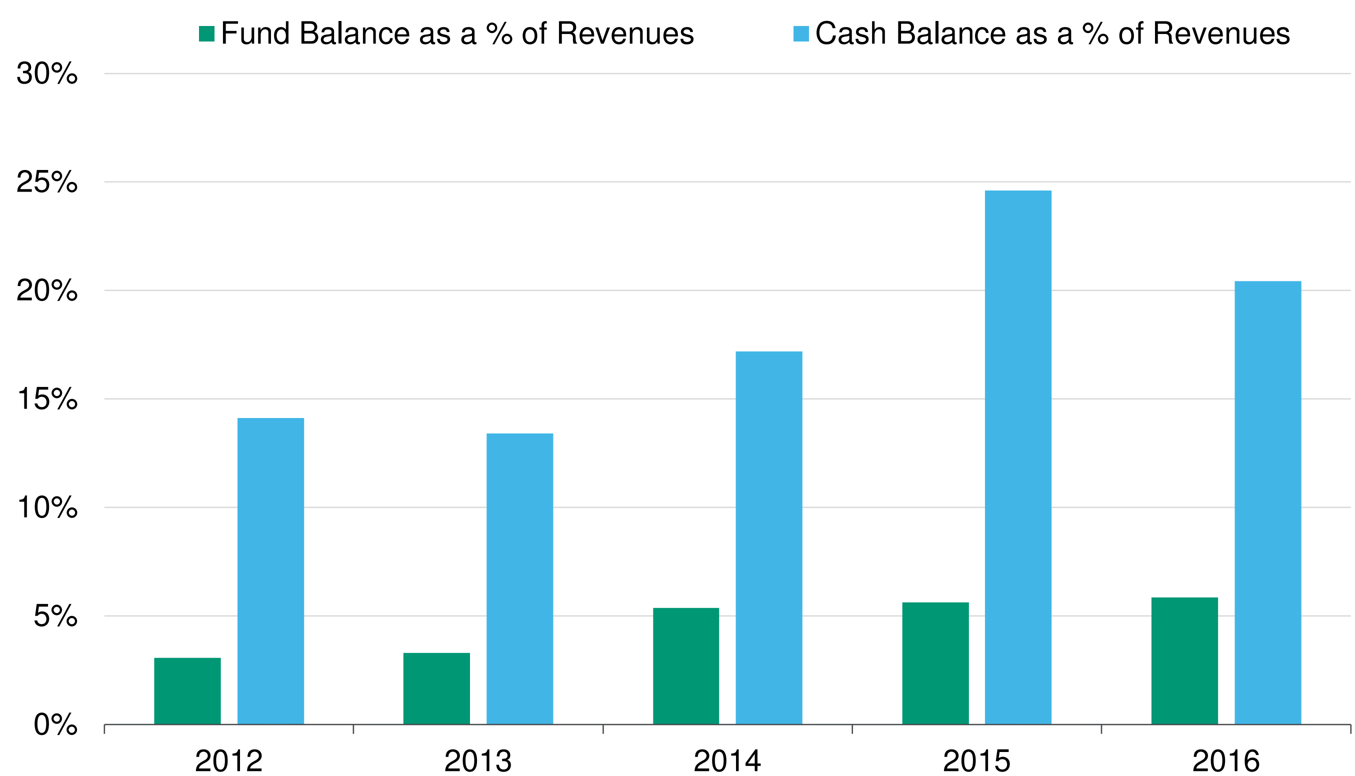
The teachers' union filed a grievance against the district related to high school teachers teaching a sixth period. The motion was ruled in favor of the union by an arbitrator, requiring an additional compensation award of $31 million for teachers. The district is required to pay the $31 million over 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.

LIQUIDITY

Fiscal 2016 ended with a General Fund cash position of $351.2 million or a satisfactory 16.7% of revenues.

Exhibit 2

Stable Fund and Cash Balances



Source: Audited Financial Statements

Debt and Pensions: Manageable Debt Burden Despite Additional Borrowing Plans

Because of the district's large and growing tax base, its debt burden, currently at 0.6% of full value, will remain manageable despite planned new debt. In November 2014, district voters approved $800 million in general obligation bonds for various capital needs. The district issued the first tranche in June 2015 and expects to issue the next tranche in 2018 ($150 - $200 million). No additional COPs are anticipated. The debt burden will not likely exceed 1% of full value. The majority of the district's $2 billion five-year capital plan will be paid primarily from property taxes dedicated to capital ($1.2 billion), while the remainder will come from general obligation debt ($800 million).

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 its tax rate (up to 1.5 mill) that is dedicated to capital. There is no debt service reserve pledged to the outstanding COPs, and there is no limit to the number of projects allowed under the master lease. The 2017B bonds will crossover refund the 2009 Build America Bonds which are callable July 1, 2019. The escrow will be funded with treasuries and other U.S. Government Securities.

DEBT STRUCTURE

The Broward County School Board has two variable rate COP issues (Series 2014A and 2015C) that total $179 million, or 10% of total COPs outstanding. The 2014A COP issue is a floating rate note with Bank of America/US Bank for $113 million through January 2, 2020; and the 2015C COP is a direct placement with U.S. Bank National Association (A1 stable) for $65 million, expiring September 18, 2018. There is also a $44.5 million Series 2012B fixed rate COP issue that was a direct purchase from Bank of America, N.A. (Aa3 stable), 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 JPMorgan Chase Bank, N.A. (Aa3 stable), is for the $65 million Series 2006B (now 2015C) COPs and is 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, N.A. (A1 positive) for the $113.8 million Series 2004D (now 2014A) COPs and is 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 (A3 stable).

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 (July 31, 2017) mark-to-market analysis indicates that termination of the swaps would require the board to pay a total termination payment of $39.2 million.

PENSIONS AND OPEB

The pension liability is manageable for the rating category. 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. Beginning in fiscal 2012, members of the FRS were required to contribute 3% of their gross compensation to the pension plan. The district's contractually required contribution for the plan was $74.4 million in fiscal 2016.

The fiscal 2016 adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $3.1 billion or 1.2 times operating revenues and 1.4% 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 district'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 OPEB liability is funded on a pay-as-you-go basis, and the district contributed $6.8 million in fiscal 2016. Total fixed costs for fiscal 2016, including debt service, required pension contributions and actual OPEB payments, represented a manageable 10.6% of operating revenues.

Management and Governance

Florida School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. School districts' major revenue source, property taxes, are subject to a cap of 10 mills which cannot be overriden. However, the cap still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Florida has public sector unions, which can limit the ability to cut expenditures, although municipalities have legal ability to make changes to union contracts. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Legal Security

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. Principal and interest on the 2017B COPs will be paid from an escrow account until the crossover date of July 1, 2019.

Use of Proceeds

Proceeds of the Series 2017C COPs will be used to advance refund $68.15 million Series 2011A COPs and $89.87 million for net present value savings of $5.5 million or 3.5% of refunded par. Proceeds of the 2017B COPs will be used to crossover refund $63.9 million Series 2009 BABs for net present value savings of $5.4 million or 8.4% of refunded par. Proceeds from the sale of the 2017B COPs will be placed in escrow and used to pay debt service on the COPs until the crossover date on July 1, 2019.

Obligor Profile

The district is coterminous with Broward County, located in south Florida. Enrollment as of 2016 was 268,836 students.

Methodology

The principal 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 this methodology.

Ratings

Exhibit 3

Broward County School Board, FL

Issue	Rating
Certificates of Participation, Series 2017B	Aa3
Rating Type	Underlying LT
Sale Amount	$58,145,000
Expected Sale Date	12/18/2017
Rating Description	Lease Rental: Appropriation
Certificates of Participation, Series 2017C	Aa3
Rating Type	Underlying LT
Sale Amount	$153,466,000
Expected Sale Date	12/18/2017
Rating Description	Lease Rental: Appropriation

Source: Moody's Investors Service

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