FITCH UPGRADES ESCAMBIA COUNTY SCHOOL DISTRICT, FL'S SALES TAX REVS TO 'AA'; AFFIRMS IDR AT 'AA'

Fitch Ratings-New York-16 December 2016: Fitch Ratings has upgraded to 'AA' from 'AA-' the rating on approximately $51.9 million of Escambia County School District, FL (the district) sales tax revenue bonds.

In addition, Fitch affirms the following:

--$19.8 million refunding certificates of participation (COPS), series 2014 at 'AA-';
--Issuer Default Rating (IDR) at 'AA'.

SECURITY
Sales tax revenue bonds are payable from the proceeds of a voted one-half cent school capital outlay discretionary sales surtax (capital outlay sales tax) levied within the district. The sales tax extends through Dec. 31, 2027.

The COPs are supported by lease payments subject to annual appropriation by the school board under a master lease-purchase agreement with the Florida School Boards Association. 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.

KEY RATING DRIVERS

The 'AA' IDR reflects the district's slow revenue growth prospects, solid expenditure flexibility, and very limited independent ability to raise revenues. In addition, the rating reflects maintenance of an adequate reserve position despite some reliance on fund balance. Carrying costs associated with pension, other post-employment benefits (OPEB), and debt service spending are low, as are long-term debt and pension liabilities. There are currently no near-term plans to issue additional debt.

The 'AA-' rating on the COPs is one notch below the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

The upgrade to 'AA' from 'AA-' of the sales tax revenue bond rating reflects the application of Fitch's new 'U.S. Tax-Supported Rating Criteria' published on April 18, 2016, specifically the enhanced sensitivity analysis of the pledged revenue stream to cyclical declines. The 'AA' rating reflects growth prospects for pledged revenues while incorporating an assessment of resilience to economic downturns. The rating also assumes that the revenue stream will not be leveraged down to the 1.25x maximum annual debt service (MADS) additional bonds test (ABT). Fitch believes the rating on the sales tax revenue bonds is capped by the IDR on the district, as the pledged revenues do not constitute special revenues under Chapter 9 of the U.S. Bankruptcy Code.

Economic Resource Base
The district is coterminous with Escambia County, which is located in the extreme northwest corner of Florida, bordering Alabama and the Gulf of Mexico, and spans approximately 661 square miles. Pensacola (IDR AA+/ Stable Outlook) is the largest city and the county seat. District enrollment was about 40,125 students in 2016, including about 974 students in charter schools.

The local economy is dependent upon the military, with the Naval Air Station Pensacola providing significant uniformed and civilian employment. Health care and tourism are also major economic sectors. The county's population (estimated at 311,003 in 2015) has grown by about 4.5% since 2010.

Revenue Framework: 'bbb' factor assessment
District general fund operations are funded through a combination of state aid and local property taxes. The district's 10-year general fund revenue growth rate (through fiscal 2015) was lower than GDP growth and just below inflation. Fitch expects a similar near-term trend given projections for essentially flat enrollment and a somewhat improved environment for state school funding. The district has very limited independent ability to raise revenues.

Expenditure Framework: 'aa' factor assessment
The district's natural pace of spending growth is expected to be close to or marginally above that of revenue. Staffing costs are the main expenditure drivers. The district has good control over employee- related expenditures, with some constraints related to class size requirements and maintenance of adequate staff compensation levels. Carrying costs associated with debt service and retiree costs are expected to remain modest.

Long-Term Liability Burden: 'aaa' factor assessment
The district's long-term liability burden related to debt and pensions is low, estimated at about 3% of personal income. The district participates in the adequately-funded Florida Retirement System (FRS). There are no near term additional debt issuance plans.

Operating Performance: 'aa' factor assessment
The district has historically maintained sound fund balance levels relative to revenue volatility and inherent budget flexibility, even with recent year draw-downs. Fitch believes that the district, supported by its solid expenditure flexibility and reserves, would maintain a satisfactory safety margin in a moderate economic decline scenario.

RATING SENSITIVITIES
Maintenance of Financial Flexibility: The IDR and COPs ratings are sensitive to material changes in the district's expenditure flexibility, modest debt and low overall long-term liabilities, and maintenance of adequate reserve levels through a typical economic cycle.

Debt Service Coverage: The sales tax rating is sensitive to changes in debt service coverage resulting from pledged revenue trends or further issuance of debt.

CREDIT PROFILE

In addition to federal, state, and local government, and the Navy Federal Credit Union, major county employers include various healthcare facilities, a chemical manufacturer, university, and a utility. County unemployment has been declining, but remains above state and national averages. County income and wealth levels are below state and national averages, partially reflecting the large military presence. In addition to the Pensacola Naval Air Station, navy facilities in the county include Saufley Field and Corry Station.

Following annual declines /flat performance in fiscal years 2010 through 2013, taxable assessed value (TAV) returned to annual growth. Most recently, TAV grew by about 4% in fiscal years 2015 and 2016. The district expects continued moderate TAV growth, which seems reasonable given ongoing residential and commercial expansions.

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 may also be levied by the district up to the statutory maximum rates of 0.748 mills and 1.5 mills, respectively. The district's current capital outlay millage rate is 1.462 mills. State aid made up over 60% of the district's fiscal 2015 general fund revenues, with over 30% generated by property taxes.

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 prospects 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% increase for fiscal 2017. 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.

District general fund revenue growth over a 10-year period (through fiscal 2015) was lower than GDP growth and just under inflation. Going forward, the natural pace of revenue growth is expected to exhibit a similar trend, given expectations for flat enrollment for the non-charter school population.

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

Salaries and benefits accounted for over 80% of general fund spending in fiscal 2016.

The pace of spending growth is expected to match or marginally exceed revenue growth, reflecting enrollment-driven spending needs largely funded by related increases in state funding, and increased local revenues driven by TAV growth.

Carrying costs related to debt service, pensions and OPEB benefits are modest, estimated at about 7% of governmental spending for fiscal 2016, affording the district some spending flexibility. Factors limiting district spending flexibility include class size requirements that can dictate staffing levels and the need to maintain adequate salary and benefit levels. The district is currently meeting its minimum class size mandates. 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.

Long-Term Liability Burden

The district's long-term liability burden, related to debt and the district's share of the net pension liability of the FRS, is modest at about 3% of personal income in fiscal 2016. The total long-term liability is made up largely of the district's outstanding debt. No additional new money debt issuance is planned for the near term.

Pensions are provided through the state run FRS, which is well funded, with a reported asset to liability ratio of 86.5% on a reported basis as of July 1, 2015 or an estimated 80.7% when adjusted by Fitch to assume a 7% rate of return.

Operating Performance

Even with recent year reserve draw-downs, the district has maintained adequate reserve levels, well in excess of its 3.5% unrestricted fund balance policy. Fitch expects the district to respond to a potential revenue decline by taking actions to control spending while maintaining an adequate level of fundamental financial flexibility. Flexibility is augmented by available balances in capital funds, which have totaled over $10 million since fiscal 2010.

In recent years, the district has relied on reserve draws to balance the budget and allow for salary increases and other priority spending. Preliminary unaudited estimates for fiscal 2016 indicate another draw-down of about $2.7 million (vs. an initially budgeted $10.2 million), in part driven by mandated spending for underperforming schools. The unrestricted ending balance is estimated at about 11.5% of spending. The fiscal 2017 budget assumes another draw-down of about $7.6 million, which would reduce the unrestricted ending balance to about 9.2%. However, the district expects better than budget revenue and expenditure performance to result in a lower draw. The district is targeting maintenance of an unrestricted fund balance of about 10% of spending.

Certificates of Participation

The district has historically paid COPs debt service with revenue from its capital outlay millage, although all legally available revenues are available for this purpose. Current legislation allows Florida school districts to levy 1.5 mills for capital outlay. Three-fourths (1.125 mills) of the 1.5 mills levy is available for COPs debt service associated with new issuance after 2009. The district currently levies 1.462 mills (an increase from 1.366 mills in fiscal 2016) and expects to use about .29 mills of the capital outlay millage for COPs MADS.

The master lease structure on the district's COPs is strong, requiring an all-or-none appropriation. In the case of non-appropriation, the trustee is authorized to require the district to surrender use of all facilities under the master lease. The master lease covers projects in 20 of the district's schools.

Sales Tax Bonds

MADS coverage in fiscal 2015 was about 4x. To evaluate the sensitivity of the dedicated revenue stream to cyclical decline, Fitch considers both revenue sensitivity results (using a 1% decline in national GDP stress scenario) and the largest consecutive decline in actual collected revenue since fiscal 2001. FAST generates a 4% scenario decline in sales tax revenue. The largest actual cumulative decline in historical sales tax revenues is about 18% for fiscal years 2007 through 2010, due to the recession.

Fitch considers the scenario results consistent with an 'aa' assessment. While the ABT allows for leverage up to 1.25x, the district reports no additional expected issuance and has opted to fund recent and planned new school construction and other capital projects via pay-go financing. Enrollment is projected to be flat in the near term, and should not pressure capital spending. The sales tax authorization expires in 2027.

Even if MADS coverage were to drop to 2x, sales tax revenue could tolerate a 50% decline before MADS coverage fell to 1x. This level of tolerance is equivalent to 11.9x the FAST results and 2.8x the largest historical decline in the review period. Given the outsized impact of the housing market collapse on the Florida economy, the rating incorporates Fitch's expectation that such a large decline in pledged revenues would not reoccur in future economic downturns

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Additional information is available at 'www.fitchratings.com'.

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

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April 21, 2014

Mr. Terry St. Cyr
Assistant Superintendent for Finance & Business Services
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75 North Pace Boulevard
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Dear Mr. St. Cyr:

Fitch Ratings has assigned one or more ratings and/or otherwise taken rating action(s), as detailed in the attached Notice of Rating Action.

In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction.

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It is important that you promptly provide us with all information that may be material to the ratings so that our ratings continue to be appropriate. Ratings may be raised, lowered, withdrawn, or placed on Rating Watch due to changes in, additions to, accuracy of or the inadequacy of information or for any other reason Fitch deems sufficient.

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We are pleased to have had the opportunity to be of service to you. If we can be of further assistance, please feel free to contact us at any time.

Jeff Schaub
Managing Director, Operations
U.S. Public Finance /
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JS/mb

Enc: Notice of Rating Action
(Doc ID: 189351)

Notice of Rating Action

Bond Description	Rating Type	Action	Rating	Outlook/ Watch	Eff Date	Notes
Escambia County School Board (FL) implied GO bonds	Long Term	New Rating	AA	RO:Sta	17-Apr-2014	
Escambia County School Board (FL) rfdg COPs ser 2014	Long Term	New Rating	AA-	RO:Sta	17-Apr-2014	

Key: RO: Rating Outlook, RW: Rating Watch; Pos: Positive, Neg: Negative, Sta: Stable, Evo: Evolving

Escambia County School Board, Florida

Certificates of Participation
New Issue Report

Ratings

New Issue	
Refunding Certificates of Participation, Series 2014	AA–
Outstanding Debt	
Implied Unlimited Tax General Obligation	AA

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Rating Outlook
Stable

Related Research
Fitch Assigns Initial 'AA–' Rating to Escambia County School Board, FL COPs; Outlook Stable (April 2014)

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New Issue Details

Sale Information: $20,325,000 Refunding Certificates of Participation, Series 2014, expected to price through negotiation the week of May 5.

Security: The certificates of participation (COPs) are secured by lease payments subject to annual appropriation by the Escambia County School Board under a master lease purchase agreement with the Florida School Boards Association. 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.

Purpose: Proceeds will be used to refund a portion of the series 2004 COPs for debt service savings.

Final Maturity: Feb. 1, 2022.

Key Rating Drivers

COPs Appropriation Risk: The one-notch distinction between the implied unlimited tax general obligation (ULTGO) and COPs ratings incorporates the slightly elevated risk of annual appropriation. The all-or-none appropriation feature of the master lease and the essential nature of leased assets, which are subject to surrender in the event of non-appropriation, temper this risk.

Strong Financial Reserves: The accumulation of sizable financial reserves has enabled transition through the national economic downturn. With continued conservative budgeting, moderate further use of reserves and balanced operations by fiscal 2016, a strong financial position is expected to be maintained over the longer term.

Relatively Stable Tax base: Unlike most of Florida, Escambia County's (the county) tax base declines have been moderate. The presence of a large military installation as well as a sizable regional power plant fosters economic stability.

Modest Debt Position: The district's debt levels are low, and all debt is rapidly retired. Borrowing needs are minimal, and overall carrying costs are low.

Rating Sensitivities

Continued Strong Financial Management: The rating is sensitive to shifts in fundamental credit quality, including the county's strong financial management practices. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are unlikely.

Rating History — COPs

Rating	Action	Outlook/ Watch	Date
AA–	Assigned	Stable	4/17/14

Rating History — ULTGOs

Rating	Action	Outlook/ Watch	Date
AA	Assigned	Stable	4/17/14

Credit Profile

Escambia County is located in the extreme northwest corner of Florida, bordering Alabama and the Gulf of Mexico. The 2013 population of the county was 302,715, and the land area was 661 square miles. The district served 40,340 full-time equivalent students in fiscal 2013. The county seat is Pensacola.

Sizable Financial Reserves

The district's strong financial position is highlighted by strong reserves and ample liquidity. The $40.3 million unrestricted general fund balance at the close of fiscal 2013 was a sizable 14.4% of expenditures and transfers out. Cash and investments in the general fund and across all governmental funds totaled $47 million and $156 million, respectively. The general fund quick ratio (cash divided by liabilities net of deferred revenue) is a strong 5.6x. Fiscal 2013 nongeneral fund liquidity includes $79 million held in the capital projects fund which accounts for the receipt of the district's local option sales tax. While those proceeds are dedicated to capital improvements, the reserves provide sizable cash flow liquidity. Furloughs and layoffs were not utilized during the economic downturn, and the district gave raises in every year except one.

Similar to many Florida school districts, Escambia school district built up reserves in fiscal years 2010 ($12.4 million operating surplus) and 2011 ($16.8 million operating surplus) from receipt of federal stimulus funds to enable planned drawdowns in subsequent years. In fiscal years 2012 and 2013, the district relied on reserves of $11.4 million and $4.9 million, respectively. The district is expecting a more moderate $3 million to $3.5 million use of reserves in fiscal 2014 and another moderate use of reserves in fiscal 2015, but expects a return to balanced operations by fiscal 2016. The district's board policy is to maintain a general fund unreserved balance of at least 3.5% of general fund revenues, although the prerecession reserves exceeded the policy. Given the district's projection for moderate use of reserves, Fitch expects the district will manage operations well above the stated policy largely through expenditure controls.

Ample Capital Millage for Cops Debt Service

While any legally available revenue can be used for COP debt service, the district has historically made payments from the capital outlay real property tax. The capital outlay millage is authorized by state law up to 1.5 mills, and the district levies the full millage. Up to three-fourths of the proceeds of the capital levy is available, but not pledged, for lease payments. Effective July 1, 2012, the three-fourths limitation is waived for lease purchase agreements entered into prior to June 30, 2009. All of the district's outstanding lease agreements were originally entered into prior to this date. The district's capital outlay millage is expected to generate $21.8 million in fiscal 2014 while maximum annual debt service (MADS) on outstanding COPs is only $4.8 million. After payment of debt service, the millage provides a substantial source of funding for pay-as-you-go capital funding.

Under an event of non-appropriation, the district is required to surrender the leased facilities. The trust estate for the series 2014 COPs includes an elementary school, which is a magnet school for the arts with a waiting list, and portions of four other schools. These facilities represent less than 3% of total facilities, but the district reports all the facilities in the trust estate are anchor schools. Overall, fiscal 2014 utilization of these facilities is very high.

Related Criteria

Tax-Supported Rating Criteria (August 2012)

U.S. Local Government Tax-Supported Rating Criteria (August 2012)

General Fund Financial Summary

($000, Audited Fiscal Years Ended June 30)

	2009	2010	2011	2012	2013
Property Tax Revenue	97,380	106,138	99,288	92,658	89,804
Other Local Sources	5,324	6,378	5,526	4,332	4,453
State Sources	178,666	160,561	162,100	157,833	164,408
Federal Sources	4,103	4,064	4,787	4,392	3,977
General Fund Revenue	**285,473**	**277,141**	**271,701**	**259,215**	**262,642**
Capital Outlay Expenditures	1,370	1,401	1,850	419	536
Debt Service Expenditures	1,077	697	315	79	0
Instruction	199,254	176,481	172,335	187,630	186,139
Operation and Maintenance of Plant	38,313	39,085	39,045	38,229	37,677
School Administration	14,596	15,936	15,495	15,421	15,461
Other Expenditures	42,288	38,095	38,909	39,659	39,123
General Fund Expenditures	**296,898**	**271,695**	**267,949**	**281,437**	**278,936**
Operating Surplus/(Deficit)	**(11,425)**	**5,446**	**3,752**	**(22,222)**	**(16,294)**
Extraordinary and Special Items	—	—	—	—	—
Transfers In	10,817	6,997	6,370	11,156	10,749
Other Sources	1,086	1	7,111	45	651
Transfers Out	—	—	423	393	—
Net Transfers and Other	**11,903**	**6,998**	**13,058**	**10,808**	**11,400**
Net Surplus/(Deficit)	**478**	**12,444**	**16,810**	**(11,414)**	**(4,894)**
Total Fund Balance	37,641	50,085	66,895	55,482	50,585
As % of Expenditures, Transfers Out and Other Uses	12.7	18.4	24.9	19.7	18.1
Unreserved Fund Balance[a]	24,432	32,917	—	—	—
As % of Expenditures, Transfers Out and Other Uses	8	12	—	—	—
Unrestricted Fund Balance[b]	—	—	—	40,962	40,271
As % of Expenditures, Transfers Out and Other Uses	—	—	—	14.5	14.4

[a]Pre-GASB 54. [b]Reflects GASB 54 classifications: sum of committed, assigned and unassigned. Note: Numbers may not add due to rounding.

Low Debt with Rapid Retirement

District debt levels are extremely low, and a high 98% of debt matures in 10 years. The debt burden is a low 0.6%, and debt per capita is only $484. Of the district's $37 million of direct debt, $4 million is variable rate and swapped to fixed. The variable-rate debt matures in 2018.

District capital needs are funded through both the excess capital outlay millage as well as a voter-approved discretionary sales surtax. The sales tax is dedicated to capital spending and was approved for 10 years, expiring Jan. 1, 2018. In fiscal 2013, the tax generated $20.9 million. The district is planning to go to the voters this fall to seek renewal of the sales tax for an additional 10 years. If renewed, the district is considering issuing sales tax bonds secured by the tax renewal.

Debt Statistics

($000)

This Issue	20,325
Outstanding Direct Debt – Net of Refunding	24,867
Self-Supporting	0
Total Net Direct Debt	**45,192**
Overlapping Debt	101,321
Total Overall Debt	**146,513**
Debt Ratios	
Net Direct Debt Per Capita ($)[a]	149
As % of Full Market Value[b]	0.2
Overall Debt Per Capita ($)[a]	484
As % of Full Market Value[b]	0.6

[a]Population: 302,715 (2013). [b]Market value: $22,914,351,000 (2013). Note: Numbers may not add due to rounding.

Military Presence Stabilizes Economy

The local economy is dependent on the military, with the Naval Air Station Pensacola providing employment for 23,400 uniformed and civilian jobs. The base was not affected during the 2005 base realignment and closure (BRAC), and no cuts at the base are currently pending. Healthcare and tourism are two other major sector employers. Employment growth over the past year contributes to a decline in unemployment, and the November 2013 rate is a low 5.9%. The Federal Navy Credit Union is undergoing a 342,000 sf expansion, representing a capital investment of $200 million and expected to create 1,500 new jobs. The construction contract for phase I was awarded earlier this year.

County population was flat from 2000–2010 and has grown a modest 1.6% through 2013. Wealth levels trail the state and national medians, partially reflecting the large military presence. Poverty is slightly above the national rate.

Taxable Property Values

From peak to trough (fiscal years 2009–2013), taxable assessed values (TAV) declined 8.8%, a modest amount relative to the rest of the state. The fiscal 2014 TAV shows a modest increase of just under 1%. Officials expect stable values for fiscal 2015. According to the Zillow Home Value Index, the growth in home values in Escambia County is continuing, as housing prices for were up 5.5% in the past 12 months. Moreover, the total value of permit activity in 2013 is at the highest level in the past six years.

Modest Carrying Costs

Carrying costs (debt service, pension and other post-employment benefits [OPEB]) are a modest 4.4% of government spending. The district has no borrowing plans. Student enrollment has been generally stable over the past five years, alleviating the need for capital construction needs. All district employees participate in the state-operated retirement system, a relatively well-funded plan. Pension and OPEB costs are affordable. The district self-insures for medical coverage and is in compliance with state guidelines for reserves in the internal service fund. Excess internal service funds can be used for catastrophic purposes.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.