S&P Global
Ratings

# RatingsDirect®

## Summary:
# Flagler County School Board, Florida; Appropriations

**Primary Credit Analyst:**
Nora G Wittstruck, Centennial (1) 303-721-4362; nora.wittstruck@spglobal.com

**Secondary Contact:**
Randy T Layman, Centennial 303-721-4109; randy.layman@spglobal.com

## Table Of Contents

Rationale

Outlook

Related Research

## Summary:

# Flagler County School Board, Florida; Appropriations

| Credit Profile | | |
|---|---|---|
| **Flagler Cnty Sch Brd certs of part ser 2005 A&B** | | |
| *Unenhanced Rating* | A-(SPUR)/Stable | Affirmed |

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings has affirmed its 'A-' underlying rating (SPUR) on Flagler County School Board, Fla.'s certificates of participation (COPs). The outlook is stable.

The rating reflects:

- The general creditworthiness of the board as lessee;
- A master-lease structure whereby failure to appropriate for one series of lease payments causes the termination of all leases covered by the master agreement; and
- The absolute and unconditional payment obligation of the school board on annual appropriation.

Credit characteristics of the district include:

- Ongoing economic recovery and improving unemployment rate;
- General fund balances that have declined but are slated in improve in the near term due to the district's cost containment strategies;
- Constrained liquidity necessitating the use of cash flow borrowing; and
- Low debt burden with no additional debt plans.

Basic rent payments to be made by the school board to the Flagler School Board Leasing Corp., pursuant to the master lease, secure the COPs.

Flagler County School District, in northeastern Florida, is coterminous with Flagler County. Its estimated population in 2015 was nearly 102,000, up about 3.0% from 2013. Economic indicators, which weakened considerably during the recession, are improving. As evidence, county unemployment has normalized at 5.5% in December 2016, down from a high of 15.1% in 2010 during the height of the recession. In addition, taxable value (TV) has increased about 22% since 2013 to $8.4 billion in the current year following significant declines in the recent past. The district's TV for fiscal 2017 represents a strong $78,205 per capita, and its median household effective buying income is good at 92% of the national average.

The district operates five elementary schools, two middle schools, and two high schools. Enrollment peaked in fiscal 2010 at nearly 13,000 and has substantially rebounded to 12,820 in 2016. Officials project that it will surpass the prior peak in 2019 with 13,150 students, consistent with management's previous indications of growth. We understand the district is in compliance with class size requirements. Management reports there are two charter schools operating within the district and that there are no applications to open new ones for next year.

Fiscal 2013 closed (June 30) with a $5.8 million total available general fund balance, which we consider good at 6.1% of expenditures. Property tax revenue accounted for 47% of general fund revenues, followed by state aid at 49%. Management previously indicated the fund balance would improve through fiscal 2017 as property values recovered. However, in fiscal 2014, the district drew on reserves, ending the year with about $3.6 million, or 3.6% of expenditures in fund balance. The draw was unexpected due to closing a facility six months later than planned. This decrease was followed by a subsequent draw in fiscal 2015, with the fund balance ending at a low $2.9 million, or 3.0% of expenditures. Due to modifications in the Florida Retirement System (FRS), including requiring employees to contribute 3% of their salary to the plan, a larger number of employees retired than expected, increasing benefit expenditures. Favorably, fiscal 2016 unaudited results show improved operations with the fund balance increasing to about $4.7 million, or a good 4.9% of general fund expenditures. Management reports that cost-containment strategies to reduce expenditures in fiscal 2016 included consolidating departments, not filling personnel positions, and increasing class sizes at the elementary and middle schools to reduce teacher hiring demands. The fiscal 2017 adopted budget also shows an addition to fund balance, with reserves increasing to about 6.3% of expenditures at year-end. We believe district management is committed to improving reserves to ensure compliance with its fund balance policy, given its recently implemented expenditure controls.

We consider Flagler County School Board's management practices "good" under S&P Global's Financial Management Assessment methodology, indicating management practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

The district formulates its budgetary assumptions based on recent trends through a historical look-back process and in consultation with outside sources such as the appraisal district. In addition, it regularly monitors its revenue and expenditure performance and presents monthly budget-to-actual reports to the school board, which helps to ensure that any necessary adjustments are made in a timely manner throughout the fiscal year. The district maintains a five-year rolling capital improvement plan, which is regularly reviewed and updated. In addition, it maintains a long-term financial plan for the general fund, which is discussed regularly with the board and identifies historical and projected revenues and expenditures. Although there is no formal investment policy, the district primarily uses those investments outlined in Florida Statutes and holdings are generally discussed monthly with the board. By policy, the district must, if feasible, have a total available general fund balance of 5%-8% revenue, which it has not complied with over the last three years but expects to meet at fiscal year-end 2017.

The district's debt burden, including overlapping county debt, is about $578 per capita or a low 0.7% of market value. Principal amortization is above average, with 69% scheduled to be retired through fiscal 2031. Although no additional borrowing is currently planned, the district entered into a bank loan for certificates of obligation in 2015 under a master lease agreement. The events of default allow for acceleration of the remaining lease payments; however, a majority of certificate-holders are required to agree to acceleration. Given the high threshold required, we do not view the potential acceleration as an immediate contingent liquidity risk. Further, the district has historically entered into tax anticipation notes (TANs) or used a bank line of credit for cash flow borrowing. The issuance generally tops around $10 million to cover the six months of operations between September and December. Management expects this annual borrowing to continue at similar levels in the future.

District employees are covered by the state-administered FRS. The district's contributions to the plan are fully funded and totaled $3.9 million in fiscal 2015. Under Governmental Accounting Standards Board No. 68, the district is required to report its share of the plan's pension liability, which was $10.3 million for the year ended June 30, 2015. Other postemployment benefits (OPEBs) are provided through a single-employer defined-benefit plan administered by the district. Benefits are financed on a pay-as-you-go basis. The liability is entirely unfunded and totaled $2.3 million as of March 1, 2015, the most recent valuation date. Combined, the pension and OPEB costs in fiscal 2015 amounted to 4.0% of governmental fund expenditures.

## Outlook

The stable outlook reflects the district's improving economic conditions, low debt profile, and good management practices. We also believe that despite recent draws on the fund balance, projections for increased financial flexibility in fiscal years 2016 and 2017 provide additional rating stability. As a result, we do not expect to change the rating during the two-year outlook period.

### Downward scenario

Should the district reverse course and the fund balance deteriorates below similarly rated peers, we could lower the rating.

### Upside scenario

All else equal, we could raise the rating if economic indicators increase to be consistent with higher rated peers or general fund reserves rise to a level we consider very strong.

## Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014