S&P Global Ratings

RatingsDirect®

Summary:

Alachua County School Board, Florida; Appropriations

Primary Credit Analyst:
Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

Secondary Contact:
Krystal Tena, New York + 1 (212) 438-1628; krystal.tena@spglobal.com

Table Of Contents

Summary:

Alachua County School Board, Florida; Appropriations

Credit Profile		
US$94.83 mil certs of part		
Long Term Rating	A+/Stable	New
Alachua Cnty Sch Brd rfdg cert of part		
Long Term Rating	A+/Stable	Affirmed
Alachua Cnty Sch Brd ICR		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating to Alachua County School Board, Fla.'s series 2020 certificates of participation (COPs). At the same time, we affirmed our 'AA-' issuer credit rating (ICR) on the board and our 'A+' long-term rating on the board's series 2013 COPs outstanding. The outlook is stable.

Basic lease payments from the school board to the Alachua County School Board Leasing Corp. secure the COPs, which are subject to annual appropriation. The series 2020 COPs are being issued pursuant to a master lease agreement that is automatically renewed annually and requires that the school board appropriate for all or none of the lease obligations. The district intends to pay the lease payments from revenue collected from the half-cent discretionary sales surtax, which generates nearly $24 million annually. We rate the COPs one notch lower than the district ICR to account for appropriation risk.

Proceeds of the series 2020 certificates will fund improvements and renovations to various facilities throughout the district.

Credit overview

The district entered the current recession with a peak level of reserves following a concerted effort to bolster flexibility after the Great Recession. Furthermore, management has identified various expenditure reductions to shore up its financial position should fiscal 2021 yield economic or fiscal challenges related to delayed or reduced state aid if the state's financial position weakens as an outcome of the pandemic. As a result, we believe the district is well positioned to absorb potential revenue pressure without a significant change to its budgetary balance. With regard to COVID-19, district facilities are closed and management is focused on ensuring all students have access to web-enabled devices or paper packets of school work to facilitate distance learning. In addition, management is preparing a plan for students to return in the fall. While we continue to monitor events related to COVID-19, we do not expect the pandemic to affect the district's ability to maintain budgetary balance and pay debt service costs. The stable outlook reflects our view of management's proactive approach to planning as well as the district's stable economy supported by the

University of Florida. In addition, the district's modest long-term liabilities with regard to pension and other postemployment benefits support our view of the district's credit quality.

The rating further reflects our assessment of the district's:

- Stable local economy with wealth and income metrics that trend slightly below those of the U.S. given that the University of Florida anchors the area;
- Strong management, with good policies and practices under our financial management assessment methodology;
- Balanced budgeting and operating performance, as well as maintenance of strong reserves;
- Modest debt and contingent liability profile, with low debt service carrying charges, and low overall net debt on a per capita basis and as a percentage of market value; and
- Participation in a well-funded state pension plan, with manageable pension and other postemployment benefit (OPEB) carrying charges.

Stable Outlook

Downside scenario

We could lower the rating if the district experiences financial pressures that lead to budgetary imbalance or sustained reductions in reserves.

Upside scenario

We could raise the rating if the district's financial position remains stable with maintenance of its reserve position, coupled with improved economic metrics that we consider comparable with those of higher-rated peers.

Credit Opinion

Economy

The Alachua County School Board is coterminous with Alachua County located in central Florida about 145 miles southeast of Tallahassee and 100 miles north of Orlando. The district is situated in Gainesville and is home to the University of Florida, so median household and per capita effective buying income remain good, in our view, at 88% and 99%, respectively, of the national averages but are somewhat depressed by the large institutional presence. Development within the county has been driven by biotechnology expansion through the Sid Martin Biotech incubator and the UF Innovate-The Hub innovation center. Furthermore, health care facilities associated with the university provide economic stability. The district's assessed valuation has grown 6% on average annually over the past five years to $17.3 billion (based on a full market value of $28.9 billion). However, significant economic activity stems from the university faculty, staff, and students, who have largely been absent since the beginning of the pandemic in March. The university has formulated a plan to incrementally reopen the campus beginning in late summer, but the university may revisit its plan, particularly if COVID-19 infections spike as Florida gradually relaxes social distancing requirements. As a result, we believe the district's economic growth may slow in next two years given the unknown trajectory of the local economy and given our outlook discussed in S&P Global Economics' macroeconomic outlook as detailed in the report "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect.

Finances

The district operates 41 schools throughout Alachua County: 23 elementary, 10 middle, and eight high schools. Florida's school district funding formula is primarily based on enrollment, which has positively affected the district, as enrollment (excluding charter schools) has experienced a steady upward trajectory. Fiscal 2020 enrollment is expected to approximate 27,400 students, up 5% since fiscal 2015. Management reports that the trend will remain steady and undergo an ongoing slight uptick over the medium term.

Management continues to focus on maintaining budgetary balance, which has resulted in a long trend of break-even audited results. Operational stability is supported by ongoing review of insurance policies for health care benefits and worker's compensation to reduce the premiums, outsourcing of school bus maintenance and replacement to a third party, and determining how to leverage community partners to provide additional services to students and staff. As a result of these efforts, the district's available reserves (consisting of assigned and unassigned fund balances) have ranged from 10% to 12% of expenditures since fiscal 2015, ending at $24.1 million, or about 10% of expenditures, in fiscal 2019. The fiscal 2019 audited results show a slight decline from the prior year as a result of the reallocation of reserves to restricted amounts.

Beginning March 31, the district implemented various cost containment measures to ensure that the fiscal 2020 budget remained balanced in the face of the pandemic and recession. These efforts include a hiring freeze, utility savings from facility closures, and personnel savings. Management anticipates depositing any benefit from these various actions into reserves to provide flexibility for fiscal 2021 should the state reduce or delay state aid payments.

The district's general fund revenue consists of property taxes (about 37%) and state aid (about 58%). Management reports that the state increased aid for fiscal 2021, and given the district's tax base growth that's averaged 6% annually over the past five years, this should lead to budget stability. However, should these operating revenue sources become pressured, management has identified various other methods to reduce expenditures, including consolidating bus routes, eliminating some extracurricular activities, and modifying personnel benefits to maintain budgetary balance. Although the state has not reported that it will change funding disbursements to school districts as a result of the pandemic and recession, the district's prudent budget management practices prepare it to absorb changes if they transpire. We believe the district has shown its effectiveness in managing its budget, which will support its credit quality over the next two years.

Management practices and policies

We view the district's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis.

Management evaluates historical information as well as annual data provided by the property appraiser's office and the state when developing revenue and expenditure projections for its budget. The projections also consider any recent legislation that may affect the district financially. The budget can be amended throughout the year as needed, and management provides monthly budget-to-actual reports to the board. The district carries cybersecurity insurance to protect its information technology systems from data breaches or other events. Insurance coverage is reviewed annually and modified as necessary. The district maintains a comprehensive five-year capital improvement plan that is updated annually and includes detailed costs and funding sources by project. Investments are governed by the district's policy, which primarily follows state guidelines. The district's formal reserve policy requires a fund balance equal to 5% of general fund revenue, and requires the superintendent to establish a replenishment plan should the balance fall below this level. Although the district lacks a formal debt policy and long-term financial plan that includes multiyear revenue and expenditure projections, it maintains a strategic plan that prioritizes student achievement while managing the district's finances in a productive an efficient manner.

Debt and liability profile

Given the modest amount of debt outstanding, which approximates $140 million following the issuance of the series 2020 COPs, the district's debt profile is low with an overall net debt per capita of $523, or 0.5% of market value. The district plans to utilize its half-cent discretionary sales tax surtax to support the lease obligations. Voters passed the tax in 2018 and collections began in January 2019. The tax is projected to generate revenue of about $24 million annually and expires in December 2030, six months after the lease obligations mature. When estimated debt service from the 2020 transaction and debt outstanding are considered, the maximum lease payment equal to an estimated $15.4 million is due in 2030. Should receipts from the sales tax surtax fall short of projections, the district can also utilize revenue from the 1.5-mill local capital improvement levy. The district does not plan to issue any additional new money debt within the next two years. Therefore, we expect no material changes in our overall view of the district's debt profile.

A portion of the district's debt outstanding ($24.3 million outstanding) has been privately placed, but each series is included under the master lease governing the series 2013 and 2020 COPs. We have reviewed the documents and do not believe they contain permissive events of default or acceleration provisions that could represent a contingent liquidity risk.

Pension and OPEB liabilities

- We do not view pension and OPEB liabilities as a source of credit pressure for Alachua County School District, given our opinion of relatively strong plan funding status and limited escalating cost trajectory risk.
- Pension and OPEB contributions are manageable as a percentage of expenditures with the district's costs equal to $13.5 million (4.3% of total governmental expenditures) in fiscal 2019.
- Postemployment Health Care Benefits Plan (OPEB plan): funded on a pay-as-you-go basis, with a net liability of $3.7 million. The OPEB plan is a single-employer defined benefit plan administered by the district providing an implicit subsidy benefit to retirees through the district's health and hospitalization plan for medical, prescription drug, dental, and vision coverage until they reach the age of Medicare eligibility.

The district participated in the following plans as of June 30, 2019:

- Florida Retirement System (FRS): 82.6% funded, with a proportionate share of net pension liability equal to $99.1 million. The FRS is a defined benefit, cost-sharing, multiple-employer pension plan administered by the State of Florida.
- Health Insurance Subsidy (HIS) program: funded on a pay-as-you-go basis, with a net liability of $49.7 million. The

> HIS is a defined benefit, cost-sharing, multiple-employer plan that provides a monthly payment to retirees to assist with health insurance costs. The HIS plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The district historically pays 100% of its annually determined contribution to the FRS plan despite falling below minimum and static funding levels, which could lead to contribution escalation over time. However, the strong funded ratio of the FRS plan and ongoing reduction in the discount rate, currently 6.9%, somewhat offset our concern that higher pension expenditures could lead to budgetary stress.