

NEW YORK--([BUSINESS WIRE](#))--Fitch Ratings has affirmed the 'A+' rating on the following certificates of participation (COPs) of the Indian River County School Board, Florida (the district):

-- Series 2005 and 2007, outstanding in the principal amount of \$57,465,000 and \$38,060,000, respectively.

The Rating Outlook is Stable.

SECURITY

The COPs are payable from lease rental payments made by the district, subject to annual appropriation, pursuant to a master lease purchase agreement. The district is required to appropriate funds for all outstanding leases under the master lease on an all or none basis. An event of non-appropriation would result in the termination of the master lease, and the surrender to the trustee of all lease-purchased projects under the master lease.

KEY RATING DRIVERS

LOW DEBT LEVELS: The district's very low debt burden is a fundamental credit positive, as are its low cost of carry for debt, pension, and other post-employment benefits (OPEB). Capital needs are limited and there are no additional borrowing plans.

FINANCIAL POSITION STABLE: Unrestricted general fund reserves approximate 10% of spending, providing a good cushion against unforeseen budgetary challenges. Financial results have exhibited improved stability and the current year operating budget is structurally balanced.

VOTER-AUTHORIZED TAXES TEMPER REVENUE CONSTRAINTS: As with all other Florida school districts independent revenue raising capacity is extremely limited. Somewhat offsetting this concern is additional discretionary tax levies approved by voters that enhance financial flexibility and appear to indicate community support for management initiatives and performance.

MIXED ECONOMIC PROFILE: The presence of a wealthier retiree population lends some stability to the local economic base. However, employment opportunities are somewhat narrow and concentrated in lower wage jobs, and the county's rate of joblessness is persistently above that of the state.

RATING SENSITIVITIES

Fitch's stable rating expectation reflects management's commitment to restoring reserves and fiscal balance. The area economy remains strained and somewhat limited, which in Fitch's view likely precludes upward rating movement in the near term.

CREDIT PROFILE

Indian River County is located on the Atlantic coastline, approximately 135 miles north of Miami, and includes the cities of Vero Beach and Sebastian. The district operates 13 elementary schools, 4 middle schools, two high schools, and an alternative education center. Enrollment remains somewhat stable, projected at 15,749 for 2014.

IMPROVED FUND BALANCE POSITION

General fund reserves are in solid shape after plummeting to a very low \$1.4 million or 1.3% of expenditures and transfers out at the close of fiscal 2010. Positive operating results in fiscal 2011 and 2012 aided by the receipt of federal stimulus funds helped boost the unrestricted general fund balance to \$12.6 million or 10.2% of spending entering fiscal 2013.

CONTINUED STABILITY ANTICIPATED OVER NEAR-TERM

The district continues to demonstrate a conservative approach to budgeting which Fitch believes positions it to perform well over the foreseeable future.

In fiscal 2013 the general fund budget projected a \$2.7 million reduction in the general fund balance to offset a reduction in federal stimulus funding. Preliminary year-end results are once again better than forecast, showing an operating surplus (after transfers) of \$674,512. Expenditures are projected to be \$5.8 million or 4% below budget, which is fairly consistent with audited results from fiscal 2010-2012.

The fiscal 2014 budget forecasts a \$1.4 million use of reserves, of which about \$1 million represents an expense of restricted fund balance for categorical programs.

Reserves now comfortably exceed the district's fund balance target, which was recently increased to 5% of revenue from 4%, and mark a moderate improvement on the district's average financial cushion dating back to fiscal 2002.

IMPROVED STATE FUNDING, COMMUNITY SUPPORT FOR OPERATIONS

Another important factor in the district's financial turnaround is the community's support for a two-year 0.25 mill tax levy in 2010 and four-year 0.6 mill tax levy in 2012 to help fund school operations. The latter levy was approved by 65.5% of voters and will generate approximately \$8 million annually.

The state funding environment has improved as well, with the district expected to receive an additional \$7.3 million in funding in fiscal 2014. A portion of the increase (\$3.1 million) is earmarked for teacher salary increases. The district expects to address the uncertainty of this allocation from the state in future years in the context of its upcoming negotiation with the teachers union, which Fitch believes is a prudent measure.

MANAGEABLE LONG-TERM LIABILITIES

Debt levels are very low at approximately \$1,220 per capita and 1% of estimated market valuation. The five-year capital improvement program (CIP) totals just \$36.1 million and will be financed primarily from cash in the capital projects fund (\$34 million balance as of July 1, 2013). No additional debt is contemplated. The CIP focuses on school safety enhancements and cafeteria improvements. Facility capacity is deemed adequate by management and the district remains compliant with the state's class size requirements.

Annual debt service is budgeted at \$12 million in fiscal 2014 or about 5% of the governmental fund budget. The district's carrying costs for debt in addition to its contributions to the adequately funded Florida Retirement System (FRS) for pension, and payments related to other post-employment benefits (OPEB) are low at approximately 8% of budget.

MASTER LEASE & CAPITAL LEVY - STRONG APPROPRIATION INCENTIVE

The district has historically paid debt service on COPs with revenue from its capital outlay millage, although all legally available revenues may be used for this purpose. Florida school districts levy 1.5 mills for capital outlay, of which three-fourths (1.12 mills) is eligible for use on COPs debt service. The district will allocate 0.84 mills of the capital outlay levy to service COPs debt service of \$11 million in fiscal 2014.

The master lease structure on the 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, which house 5,276 students or 34.6% of the district's traditional school enrollment. Fitch considers this a very strong incentive to appropriate.

ECONOMIC PRESSURES PERSIST

Fitch Affirms Indian River County School Board, FL's COPs at 'A+'; Outlook Stable

Written by Australian Business

The economy of Indian River County is historically based in agricultural production and tourism. Ample developable waterfront land and a relative lack of congestion serve to attract a significant wealthy retiree population, which is evident in the per capita income levels approximately 20% higher than the state, high market value per capita, and above-average median age.

Strong population growth fed a retail and service-based economy including a considerable construction and real estate component, which has proven extremely vulnerable to the effects of the national recession. The county's preliminary July 2013 unemployment rate of 9.7% remains well above state and national norms but improved from 12.1% a year earlier due to solid gains in the hospitality, retail, and education and healthcare sectors.

Ongoing employment base stability is important to district operations, given its dependence on state funding which is established on a per pupil basis. The district is projecting a flat to small growth for the traditional school environment while growth for charter schools primarily due to enabling legislation by the state.

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

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, and IHS Global Insight.

Applicable Criteria and Related Research:

-- 'Tax-Supported Rating Criteria' (Aug. 14, 2012);

-- 'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research:

Tax-Supported Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015

U.S. Local Government Tax-Supported Rating Criteria http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314

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