NEW YORK--(BUSINESS WIRE)--Fitch Ratings affirms the following ratings of Seminole County School Board (the district), FL:

--$171 million certificates of participation (COPs) at 'AA-';

--Implied unlimited tax general obligation (ULTGO) bonds at 'AA'.

The Rating Outlook is Stable.

SECURITY

The district's COPs are secured by lease payments made to the trustee and pursuant to a master lease purchase agreement. Lease payments are payable from legally available funds of the district (subject to annual appropriation by the Seminole County School Board). The district is required to appropriate funds for all outstanding leases on an all-or-none basis.

In the event of non-appropriation, all leases will terminate, and the district would, at the trustee's option, have to surrender all lease-purchased projects for the benefit of owners of the COPs which financed or refinanced such projects.

KEY RATING DRIVERS

VOTER SUPPORT FOR SCHOOLS: District financial position is adequate, marked by strong expenditure control. Recent passage of tax referendums enhances financial flexibility. One time reserve use in fiscal 2014 narrows financial reserves but operating stability is expected in fiscal 2015.

LOW LONG TERM LIABILITIES: Key debt ratios are very low and are expected to remain so given moderate capital needs and absence of borrowing plans. Pension and other long term liabilities are a low percentage of spending.

STRENGTHENING ECONOMIC PROFILE: Recovery from the downturn is evidenced by employment growth and tax base expansion. Seminole County's economy is marked by diverse employment opportunities, low unemployment, and above-average wealth.

COPS APPROPRIATION RISK: The one-notch distinction between the implied ULTGO and COPs rating incorporates risk to annual appropriation. Tempering this risk is the all-or-none appropriation feature of the master lease, the sizable number of schools under the master lease and the essential nature of leased assets that are subject to surrender in the event of non-appropriation.

RATING SENSITIVITIES

WEAKENING OF OPERATING RESERVES: The rating is sensitive to the district's ability to maintain structural balance. Failure to maintain reserve levels in fiscal 2015 could pressure the rating.

CREDIT PROFILE

The school district, which is coterminous with Seminole County, is located in the central portion of the state near the Atlantic coast and is in the Orlando metropolitan statistical area (MSA). The county's 2013 population is 430,838.

SOUND FINANCIAL POSITION

District financial position has weathered the economic downturn well with moderate draws on reserves. The district tax base turned the corner in fiscal 2014. Together with voter approvals for added real property tax and sales tax revenue, this helps support the expectation of continued sound financial position.

The district incurred operating deficits of $12.3 million (2.9% of spending) and $3.4 million (0.8%) in fiscal years 2012 and 2013, respectively. The fiscal 2013 general fund unrestricted balance of $41.8 million represents a satisfactory 9.9% of spending. The district's general fund balance policy calls for the unassigned fund balance to equal 4% of total recurring expenditures. At the close of fiscal 2013 the unassigned balance was 7.7% of expenditures.

Fiscal 2013 results were $21 million better than budget, reflecting the district's practice of conservative budgeting. Fiscal 2013 expenditures included a 2.7% pay increase for personnel totaling $8.2 million. The previous pay increase was in fiscal 2008.

ONE TIME RESERVE USE IN FISCAL 2014; BALANCE EXPECTED IN 2015

District officials project the fiscal 2014 general fund balance to decline by $10.4 million. Only $1.5 million of the fund balance use represents a structural gap. The district is implementing medical self-insurance in fiscal 2015 and is transferring $7.5 million to a new self-insurance fund. Commercial insurance costs were expected to increase by over 12% and self-insurance is expected to result in a 1% cost increase. Additional one-time small reserve use in fiscal 2014 is related to unexpected software costs.

Voters approved a one mill increase in property taxes for operations for four years, the collection of which began in fiscal 2014. The $25.8 million fiscal 2014 levy from the voter authorized one-mill is budgeted for repair and maintenance of school buildings as well as outlay needs.

Voters also approved, by a 52% margin, a ten-year one cent sales tax increase, bringing the county wide sales tax from six cents to seven cents. The tax goes into effect Jan. 1, 2015 and the district will receive 25% of the tax revenue, an estimated $15.8 million. The district pledged to voters to reduce property taxes by the amount of sales tax expected. Consequently the discretionary real property millage is expected to be reduced in the fiscal 2015 budget. Total sales tax revenue to the school over the ten years is an estimated $158 million.

SATISFACTORY REVENUES FOR COPS DEBT SERVICE

The district has historically paid COPs debt service with revenue from its 1.5 mills for capital outlay, although all legally available revenues are available for this purpose. Three-fourths (1.12 mills) of the 1.5 mills levy is available for COPs debt service. In fiscal 2013 the total capital millage collected was $37.8 million, relative to COPs debt service of $22.5 million, leaving a satisfactory cushion beneath the state cap.

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, which is approximately 30% of the district's total facilities. Fitch considers this a strong incentive to appropriate.

LOW LONG TERM OBLIGATIONS

Overall debt levels are very low at 1.0% of market value (MV) and $811 per capita. Debt service amortization is rapid with 77% of outstanding debt retired in 10 years. Debt levels are expected to decline as the district has no plans to issue additional debt.

The district's fiscal 2015-2025 capital improvement program totals a moderate $159 million and is fully funded by local revenues. School facility needs are minimal and capacity is satisfactory. The majority of projects are for building renovations.

Pension obligations are limited to the district's participation in the statewide multiple-employer pension plan (FRS), a plan which is fairly well funded. For fiscal 2013, the district's annual contribution totaled $13.4 million to the defined benefit plan and $1.4 million to the defined contribution plan.

The district offers an implicit subsidy for other post-employment benefits (OPEB) as required by state law. The district funds the liability on a pay-as-you-go basis with a fiscal 2013 contribution of $2.1 million. Total fiscal 2013 carrying costs (debt service, pension and OPEB payments) were a moderate 10.6% of total government spending.

RECENT ECONOMIC AND TAX BASE STRENGTHENING

Seminole County is home to the corporate headquarters of the American Automobile Association (AAA), Mitsubishi Power Systems, Scholastic Book Fairs, and Sears Home Improvement Products. Large private employers within the MSA include Walt Disney World, Florida Hospital, Publix Super Markets, Universal Studio - Florida, Orlando Regional Healthcare, and Lockheed Martin.

Verizon constructed a new finance and accounting hub adding approximately 300 new jobs which together with general economic recovery has contributed to robust county-wide job growth. Consequently, the county's unemployment rate has fallen over the past year. As of December 2013, unemployment was a low 5.1%; below the state (5.9%) and national levels (6.5%) rates. Income levels are favorable, slightly higher than the state and U.S.; and the poverty level is lower.

In addition to job growth, recovery is also evident in the district's real property tax base. Taxable assessed value (TAV) fell almost 24% from peak to trough, but is now showing sustained improvement with 2.7% and 5.7% growth in fiscal years 2013 and 2014, respectively.

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, IHS Global Insight, National Association of Realtors.

Applicable Criteria and Related Research:

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

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

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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

Additional Disclosure

Solicitation Status

http://www.fitchratings.com/gws/en/disclosure/solicitation?pr_id=839670