MOODY'S
INVESTORS SERVICE

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New York, NY 10007
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November 14, 2014

Mr. Terry St. Cyr
Escambia County School District, FL
Vernon McDaniel Building
75 North Pace Boulevard
Pensacola, FL 32505

Dear Mr. St. Cyr:

We wish to inform you that on October 27, 2014, Moody's Investors Service reviewed and assigned a rating of **Aa3** to Escambia County School District, FL, Refunding Certificates of Participation, Series 2014.

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November 14, 2014

Terry St. Cyr
ESCAMBIA COUNTY SCHOOL DISTRICT, FL
Vernon McDaniel Building
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If there is a conflict between the terms of this rating letter and any related Moody's rating application, the terms of the executed rating application will govern and supercede this rating letter.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Moses Kopmar at 212-553-7106.

Sincerely,

Julie B

Julie Beglin
VP-Sr Credit Officer/Manager

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns provisional (P) Aa3 to Escambia Co. School Board, FL's $20M Refunding COPs, Ser. 2014

Global Credit Research - 16 Apr 2014

ESCAMBIA COUNTY SCHOOL BOARD, FL
Public K-12 School Districts
FL

Moody's Rating

ISSUE	RATING
Refunding Certificates of Participation, Series 2014	(P)Aa3
Sale Amount $20,335,000	
Expected Sale Date 11/03/14	
Rating Description Lease Rental: Appropriation	

Moody's Outlook Not Specified

Opinion

NEW YORK, April 16, 2014 --Moody's Investors Service has assigned a provisional rating of (P) Aa3 to Escambia County School Board, FL's planned sale of $20.3 million Refunding Certificates of Participation (COPs), Series 2014. The certificates are secured by annually-appropriated lease payments.

The sale is a forward refunding with a delayed delivery closing in November 2014. Moody's assigns provisional ratings (P) when the assignment of a final rating is subject to the fulfillment of contingencies but it is highly likely that the rating will become definitive after all documents are received or an obligation is issued into the market. Upon a review of the transaction structure and terms at closing, Moody's will endeavor to assign a definitive rating. A definitive rating (if any) may differ from a provisional rating.

Proceeds will refund substantially all of the district's Series 2004 COPs, for estimated net present value savings of $1.49 million, or 6.8% of refunded principal, with no extension of maturity.

SUMMARY RATING RATIONALE

The (P) Aa3 COP rating is based upon the district's sound financial position, reflected in healthy General Fund liquidity and reserves, a very low debt burden, and a near-term capital plan that is expected to be financed internally from accumulated cash reserves and capital-only revenues. The rating additionally reflects favorable bondholder protections provided by use of a master lease structure that enhances the incentive to appropriate, the essential nature of the leased assets, and the ample availability of capital outlay revenues for payment of debt service.

STRENGTHS

- Healthy General Fund liquidity and reserves

- Very low debt burden

- Ample revenues available for capital needs

CHALLENGES

- Ability to maintain current cash and reserves levels

- Economy dominated by tourism and military components

- Near-term expiration of capital sales surtax

DETAILED CREDIT DISCUSSION

ESSENTIAL NATURE OF PROJECTS AND SOUND SECURITY FEATURES MITIGATE APPROPRIATION RISK

We believe the strength of the master lease program, the essential nature of the projects, and the ability to utilize a separate funding source for COP payments provide strong appropriation incentive. The district currently has two separate lease schedules used to secure various serious of COPs. Under the terms of the master lease, the school board must budget and appropriate for all or none of the assets included in the projects. Approximately 36% of the district's 61 educational facilities are under the master lease in whole (6 schools) or in part (15 additions). At the time of the delayed delivery closing, combined COP principal of $34.7 million will be fully collateralized, 1.20 times or 120%, by assets from the projects.

Under the lease agreement, the superintendent shall include the funds necessary to make all lease payments in the proposed budget, unless prior to fiscal year-end, the board shall provide notice of its intent not to appropriate for such lease payments due in the following fiscal year. A failure to appropriate for all lease payments would result in forfeiture of facilities included under the master lease and could cause material disruption to district operations. Due to the essential nature of the financed projects, we believe that the risk of non-appropriation is minimal.

Lease payments are typically paid from, not secured by, a portion of the district's 1.5 mill capital outlay levy. The value of a mill at a 96% collection rate in fiscal 2014 is approximately $14.5 million in relation to estimated (post refunding) maximum annual debt service on all COPs of less than $5.1 million, which requires a low levy of 0.35 mills. The board does not currently plan to issue additional COPs within the next five years. All COPs are repaid within the next 8 years. There is no debt service reserve for any series of COPs, and no limit on the number of projects that may be included in the master lease. State law had allowed school districts to use up to 75% (or 1.125 mills) of their 1.5 mill capital outlay levy to make lease payments. The law was subsequently amended to exclude from the calculation lease obligations entered into prior to June 30, 2009. All of the district's COPs are excluded from the 75% limit.

ECONOMY DEPENDENT ON MILITARY AND TOURISM

Escambia County is located in the northwestern part of the state, bordered on the west and north by Alabama (LT SR GO rated Aa1/Stable), on the east by Santa Rosa County (LT SR REV rated A1), and on the south by the Gulf of Mexico. We expect the military and tourism-focused economy will continue to rebound from the recession, but remain exposed to future storm events and the modest stability provided by military and health care sectors. Escambia County, which includes the City of Pensacola (LT SR REV rated Aa3), provides a number of recreational activities for visitors from the southeast states with its beaches, barrier islands and various attractions. With the purchase of AirTran in 2012, Southwest Airlines Co.(Long Term Rating Baa3/Stable) now services Pensacola International Airport from Houston (LT SR GO rated Aa2/Stable) and Metropolitan Government of Nashville & Davidson County, FL (LT SR GO rated Aa2/Stable) area.

While a considerable portion of the county's economy is tourism-related, this concentration in tourism is somewhat offset by employment in health services and the current military presence. The Pensacola MSA supports a number of military operations including: Pensacola Naval Air Station (NAS), NAS Whiting Field, Saufley Field, Corry Field and the Naval Hospital. Total military-related employment, including construction, has historically accounted for almost 50% of payroll in the Pensacola MSA, providing a significant driver to the local economy. In April 2013, Navy Federal Credit Union decided to expand its Pensacola campus, constructing 2 new buildings and adding 1,500 new jobs.

The economy also includes a strong health care sector with three major facilities (Baptist, Sacred Heart, and West Florida Regional), as well as some major manufacturers such as International Paper Company (Long Term Rating Baa3/Stable) and Solutia (chemicals). The area economy may also benefit from its proximity to the new $600 million Airbus assembly line in Mobile, Alabama (GOLT rated Aa2).

The county's unemployment rate is above the state level, but has been trending below the national average at 6.6% in January 2014 (6.3% state; 7% nation). County wealth levels are somewhat weak, with median family income and per capita income at 91.4% and 86.5% of the state, respectively. Tax base growth has averaged -1.6% over the past five years, but taxable value increased a modest 0.9% in fiscal 2014 to reach $15.1 billion. Full value per capita is sound at $81,390, and is understated given the numerous exempt properties in the area. Building permit activity has increased for the last two years - measured in both number and value of permits - from

$62.6 million in fiscal 2011 to $113.9 million in fiscal 2013, and median home prices have increased 5.5% year-over-year.

According to Moody's Economy.com (November 2013), the Pensacola MSA will strengthen in coming months as the drag from sequestration fades and private drivers benefit from favourable conditions. Job growth will top the U.S. average and maintain pace with strong statewide performance by late 2014. The area economy should also expand a step ahead of the nation over the long term because of vigorous net migration and the presence of important service industries.

SATISFACTORY FINANCIAL PERFORMANCE WITH GOOD GENERAL FUND CASH AND RESERVES

We believe the district's favorable financial position will remain stable given sound management, conservative budgeting practices and consistently favorable fund balance reserve levels. While district enrollment remained level from fiscal 2009 (40,330) to fiscal 2014 (40,180), the district closed 8 schools and eliminated more than 470 FTE positions (8%) over the same period, and succeeded in meeting class-size-reduction in each year, except for fiscal 2013. The leaner operation profile has benefitted the district, allowing it to accumulate stimulus funds received in fiscal 2010 and fiscal 2011 and then carry these funds into its fiscal 2012 and fiscal 2013 budgets. While the district spent down some of these funds in fiscal 2012, it brought operations into better balance in fiscal 2013, with the use of only $4.9 million of reserves, and ended the year with a healthy General Fund cash balance of $47 million (17.2% of revenues) and reserves of $50.6 million (18.5% of revenues). The district used state categorical funds to fully cover teacher payments and increased FRS contribution in fiscal 2014, and expects to appropriate $3.5 million of reserves by year-end.

The district intends to stabilize reserves near the $45 million level (approximately 15% or 16% of revenues), and has the expenditure flexibility remaining to do so. The district currently has positions associated with both non-core programs and transitional programs, and faces limited enrollment growth or pressure from charter schools. Fixed costs do not present an onerous burden, with the fiscal 2013 pension ARC ($8.9 million) and OPEB ARC ($2.4 million) combining to less than 4% of General Fund revenues. Employee dental, health, and life insurance premiums are fully funded out of the district's Employee Benefit Trust Fund, which is an internal service fund with the premium costs shared between the district and employees. Further, the district's capital flexibility allows for the absorption of many smaller operating costs into the capital budget.

VERY LOW DEBT BURDEN WITH SUBSTANTIAL CAPITAL FLEXIBILITY

The district's credit profile benefits from a very low debt burden and the presence of a voted half-cent infrastructure sales surtax for capital only. The district has identified capital needs of approximately $40 million per year over the next five years, with investment focused mainly on routine maintenance, security, and the potential expansion of one or two school facilities. The district has a voted half-cent infrastructure sales surtax for capital only, from which it received $21.1 million in fiscal 2013. The district's capital outlay levy produced nearly $21 million in fiscal 2013, which combined with the sales surtax revenues should enable the district to fully fund its capital needs internally over the next several years (inclusive of lease payments). Additionally, the district ended fiscal 2013 with $79 million of cash reserves in its sales surtax fund, and $15.7 million available in its capital outlay fund. The sales surtax is set to expire in 2018, and the district has placed a measure on the November 2015 ballot to reauthorize the sales surtax for a term of 10 years.

The district's Series 2005 COPs ($9.64 million) and Series 2006 COPs ($6.64 million) were placed directly with Bank of America, N.A. (Long Term Rating A2/Stable). Both COPs bear the same floating rate equal to 63.7% of 1-month LIBOR plus a credit spread of 65 basis points. The COPs cannot be put back to the district prior to maturity. Concurrent with the placement of each COP, the district entered into floating to fixed rate swaps with Bank of America. The district pays fixed rates of 3.89% on the Series 2005 COPs, and 4.106% on the Series 2006 COPs, and receives an identical floating rate - 63.7% of 1-month LIBOR plus 65 basis points - on both swaps. The COP principal amounts and swap notional amounts amortize on identical terms for both swaps. The swaps had a negative fair value of $966,000 to the district as of a 6/30/2013 valuation. The Series 2006 COPs mature in February 2015, and the Series 2005 COPs in February 2018, with each swap expiring upon maturity of the associated COP.

The district participates in the Florida Retirement System (FRS), a state-managed, multi-employer cost-sharing plan. The district makes its annual required contribution (ARC) in accordance with rates determined by the Florida Legislature. The state plan had an as-reported funded ratio of approximately 85.9% as of July 1, 2013. The district's 3-year average adjusted net pension liability (ANPL) represented a moderate 1.13 times operating revenues.

WHAT COULD CHANGE THE RATING UP:

- Increased cash and reserves

- Sustained tax base growth

WHAT COULD CHANGE THE RATING DOWN:

- Weakening of cash and reserves

- Significant increase in debt burden

KEY STATISTICS:

Lessor: Florida School Boards Association

Lessee: Escambia County School Board

Full Value, 2013: $24.5 billion

Full Value Per Capita, 2013: $81,390

Median Family Income as % of US Median: 83.3%

Fund Balance as % of Revenues: 14.7%

5-Year Dollar Change in Fund Balance as % of Revenues: 5.6%

Cash Balance as % of Revenues: 17.2%

5-Year Dollar Change in Cash Balance as % of Revenues: 1.7%

Institutional Framework: "A"

5-Year Average Operating Revenues / Operating Expenditures: 1.01x

Net Direct Debt as % of Full Value: 0.2%

Net Direct Debt / Operating Revenues: 0.14x

3-Year Average ANPL as % of Full Value: 2.58%

3-Year Average ANPL / Operating Revenues: 1.13x

The principal methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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