FitchRatings

Public Finance
Tax-Supported
U.S.A

Escambia County School District, Florida

Ratings

Long Term Issuer Default Rating	AA

New Issue

$40,000,000 Escambia County School Board COPs, Series 2020A	AA-

Outstanding Debt

Escambia County School Board Refunding Certificates of Participation	AA-
Escambia County School Board Sales Tax Revenue Bonds	AA

Rating Outlook

Negative*

*Revised from Stable on June 11, 2020.

Applicable Criteria

U.S. Public Finance Tax-Supported Rating Criteria (March 2020)

Related Research

Fitch Rates Escambia County School District, FL's $40 MM COPS 'AA-'; Outlook Revised to Negative (June 2020)

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New Issue Summary

Sale Date: Week of July 29

Series: Series 2020A

Purpose: Proceeds will be used to finance the cost of the acquisition and construction of a new elementary school.

Security: The certificates of participation (COPs) are supported by lease payments subject to annual appropriation by the school board under a master lease-purchase agreement with the Florida School Boards Association. Upon certain events of default or the school board's failure to appropriate funds, all leases under the master lease will terminate, and the school board is required to immediately surrender possession of all facilities subject to the master lease.

IDR

The 'AA' Issuer Default Rating (IDR) reflects Escambia County School District's (the district) slow revenue growth prospects, solid expenditure flexibility and very limited independent ability to raise revenues. In addition, the rating reflects maintenance of an adequate reserve position even with some reliance on fund balance through the current economic downturn. Carrying costs associated with pension, other post-employment benefits (OPEB) and debt service spending are low. There are no near-term plans to issue additional debt, and principal amortization is rapid.

The 'AA-' rating on the COPs is one notch below the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

The revision of the Rating Outlook on the IDR and COP to Negative from Stable reflects the unknown extent of changes in future state and federal aid to the district given shutdown measures related to the coronavirus pandemic and the district's potential vulnerability if such revenue cuts are significant.

Dedicated Tax

The 'AA' rating on the sales tax revenue bonds reflects sound debt service coverage, revenue growth prospects and expected resilience to the current economic downturn. The rating also assumes that the revenue stream will not be leveraged down to the 1.25x maximum annual debt service (MADS) additional bonds test (ABT). The rating on the sales tax revenue bond is capped by the district's IDR, as Fitch Ratings does not believe it is clear the pledged revenues would be insulated from the general operations of the district in the event of a bankruptcy.

The revision of the Outlook to Negative on the sales tax revenue bonds reflects the Negative Outlook on the IDR.

The 'AA' rating on the sales tax revenue bonds also reflects the bond structure's still-strong resilience in a pledged revenue stress that reflects Fitch's stressed case scenario of the potential impact of the coronavirus pandemic, including protective measures to curb its spread and expectations for a subsequent recovery. The rating also reflects the bond's sound prospects for revenue growth over the longer term. Moreover, the rating assumes that the revenue stream will not be leveraged down to the 1.25x MADS ABT in the long term.

Economic Resource Base: The district is coterminous with Escambia County, which is located in the extreme northwest corner of Florida, bordering Alabama and the Gulf of Mexico, and spans approximately 661 square miles. Pensacola (IDR AA+/Stable) is the largest city and the county seat. District enrollment was about 39,708 students in fiscal 2020, including about 850 students in charter schools (equal to around 2% of the total student population).

The local economy is dependent upon the military, with the Naval Air Station Pensacola providing significant uniformed and civilian employment. Health care and tourism are also major economic sectors. The county's population (estimated at 318,316 in 2019) has grown by about 7% since 2010.

Key Rating Drivers

Revenue Framework: 'bbb': District general fund operations are funded through a combination of state aid and local property taxes. Fitch expects the district's revenues will grow at a pace in line with the rate of inflation based on expectations for flat enrollment and growth in state aid. The district has very limited independent ability to raise revenues.

Expenditure Framework: 'aa': Enrollment growth and wages and benefits are the main expenditure drivers. The district's natural pace of spending growth is expected to be close to or marginally above that of revenue. Carrying costs associated with debt service and retiree benefit costs are expected to remain modest.

Long-Term Liability Burden: 'aaa': The district's long-term liability burden related to debt and pensions is low, estimated at about 4% of personal income. The district participates in the adequately funded Florida Retirement System. There are no near-term additional debt issuance plans.

Operating Performance: 'aa': The district has historically maintained sound available fund balance levels relative to revenue volatility and inherent budget flexibility, even with recent year drawdowns. Fitch believes that the district, supported by its solid expenditure flexibility, would maintain satisfactory reserves throughout the current economic cycle.

Rating Sensitivities

Factors that could, individually or collectively, lead to positive rating action/ upgrade:

- For the IDR/GO bonds, the Outlook could be revised back to Stable if district reserve levels outperform Fitch's base case expectations through the stress scenario. Although unlikely in the medium term, a sustained increase in available general fund reserve levels providing what Fitch considers improved financial flexibility could result in positive rating action.
- For the sales tax revenue bonds, the rating is capped by the IDR.

Factors that could, individually or collectively, lead to negative rating action/ downgrade:

- For the IDR/GO bonds, an inability to manage expenditures and maintain current available reserve levels through potential state aid reductions and/or an economic contraction consistent with Fitch's coronavirus downside scenario that triggers sustained and deep revenue declines and materially erodes the district's gap-closing capacity.
- For the sales tax revenue bonds, the sales tax rating is sensitive to changes in debt service coverage resulting from sharp declines in pledged revenues or leveraging the revenue stream beyond Fitch's expectations.

Current Developments

Sectorwide Coronavirus Implications

The recent outbreak of coronavirus and related government containment measures worldwide create an uncertain global environment for U.S. state and local governments and related entities in the near term. While the district's most recently available fiscal and economic data do not fully reflect impairment, material changes in revenues and expenditures are occurring across the country and likely to worsen in the coming weeks and months as economic activity suffers and public health spending increases. Fitch's ratings are forward-

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Negative	6/11/20
AA	Review - No Action	Stable	9/26/19
AA	Review - No Action	Stable	12/29/17
AA	Assigned	Stable	4/17/14

looking in nature, and Fitch will monitor developments in state and local governments as a result of the virus outbreak as it relates to severity and duration and incorporate revised expectations for future performance and assessment of key risks.

In its baseline scenario, Fitch assumes sharp economic contractions to hit major economies in 1H20 at a speed and depth that is unprecedented since World War II. Sequential recovery is projected to begin from 3Q20 onward as the health crisis subsides after a short but severe global recession. GDP is projected to remain below its 4Q19 level until mid-2022. Additional details, including key assumptions and implications of the baseline scenario and a downside scenario, are described in the special report titled, "Fitch Ratings Coronavirus Scenarios: Baseline and Downside Cases - Update," published April 29, 2020, available on www.fitchratings.com.

Due to the coronavirus pandemic, Fitch expects that there will likely be a cut in state aid revenue in mid-fiscal 2021. Although the timing and extent of a potential cut is, as of now, unknown, the district has identified several spending adjustments that it could make without affecting core educational operations. The district believes that these would enable the district to absorb a revenue cut without a significant reduction in general fund reserves. The Negative Outlook reflects the possibility that revenue declines outweigh the district's ability to make those adjustments, forcing the district to rely on reserves to an extent that reduces ongoing financial flexibility.

Fitch also expects that, although the district's sales tax revenue will be significantly affected by shutdown measures, the district's sales tax revenue bonds are resilient to Fitch's modeled 34% decline.

Credit Profile

In addition to federal, state, and local government and the Navy Federal Credit Union, major county employers include various healthcare facilities, a chemical manufacturer, a university, and a utility. County unemployment has declined from the recessionary peak and is now on par with state and national averages. County income and wealth levels are below state and national averages, partially reflecting the large military presence. In addition to the Pensacola Naval Air Station, navy facilities in the county include Saufley Field and Corry Station.

Following annual declines in fiscal years 2010 through 2013, taxable assessed value (TAV) returned to slow growth, benefiting from improved home values and economic development, although TAV has not fully recovered, with fiscal 2020 TAV still below the pre-recession peak.

Revenue Framework

The Florida Education Finance Program (FEFP) is the primary mechanism for funding the operating costs of Florida school districts. The FEFP process determines a base per-student funding level. The funding is split between state funds, largely derived from statewide sales tax revenue, and local funds via the required local millage rate established pursuant to state statutory procedure. The district levies discretionary taxes for operations and capital/maintenance at the statutory maximum rates of 0.748 mill and 1.5 mills, respectively. State aid made up over 66% of the district's fiscal 2019 general fund revenues, with over 30% generated by property taxes.

Fitch's view of school district revenue prospects considers the revenue performance of the state as a starting point given its fundamental responsibility for public education funding. Fitch believes Florida's revenues will grow at a pace that is above the rate of inflation but below U.S. economic performance based on a resumption of population growth and stronger economic expansion. School district revenue expectations are somewhat tempered by the state's education funding commitments, which have been variable in recent history with annual changes in the base student allocation as low as a 1%-2% increase for the past three fiscal years.

Enrollment trends and expectations are the second key determinant of a school district's revenue growth prospects and are based on Fitch's view of the local economy, demographic patterns and competition from non-traditional public schools, among other factors.

District rate adjusted general fund revenue growth over a 10-year period through fiscal 2019 was in line with inflationary growth. Fitch expects this trend to continue, given expectations for flat enrollment for the non-charter school population. FEFP funding levels in recent years have lagged the rate of growth in the state's general revenues. The impact on state educational aid of the coronavirus pandemic is not clear at this time; however, state relief from mandates as well as federal stimulus programs could help mitigate a decline in revenues as occurred in the prior downturn.

Due to the state funding mechanism, Florida school districts have very limited ability to independently increase general fund revenues. However, this limitation as a factor in the revenue framework assessment is somewhat offset by the recognition of K-12 education as fundamentally a state responsibility and the strong foundation of state support for education funding.

Expenditure Framework

Salaries and benefits accounted for approximately 80% of the fiscal 2019 adopted general fund budget.

The pace of spending growth is expected to match or marginally exceed revenue growth, reflecting enrollment-driven spending needs typically funded by related increases in state funding and increased local revenues driven by TAV growth.

The district's mandate to provide educational services and need to compete with charter schools somewhat limit its ability to make expenditure reductions in the event of a revenue decline. Nonetheless, the district's relatively low carrying costs and ability to modify class sizes, reduce personnel, adjust curriculum and make other cuts, if needed, provide solid expenditure flexibility. Carrying costs related to debt service, pensions and OPEB benefits are modest, at about 6% of governmental spending for fiscal 2019, affording the district some spending flexibility.

Factors limiting district spending flexibility include class size requirements that can dictate staffing levels and the need to maintain adequate salary and benefit levels. The district is currently meeting its minimum class size mandates. Wages and benefits are collectively bargained between the district and unions representing teachers and support staff. Under Florida law, a bargaining impasse is ultimately resolved by action of the governing body of the local government following the conclusion of a non-binding mediation process.

Long-Term Liability Burden

Fitch estimates the district's long-term liability burden, consisting of total debt and the district's share of the net pension liability of the FRS, at 4% of personal income in fiscal 2019. Long-term liabilities are expected to remain low as no additional new money debt issuance is planned for the near term. Approximately 92% of principal is scheduled to be repaid within 10 years.

The district's $210 million 2018-2022 capital improvement plan (CIP) will be funded largely through a combination of the local capital outlay millage and sales tax revenues. In November 2014, district residents voted to extend the existing half-cent school capital outlay discretionary sales surtax for ten years ending Dec. 31, 2027. The sales tax was originally approved in 1998. The district issued $52 million in sales tax revenue bonds to construct a new middle school and fund various school facility upgrades. No additional new money issuance is planned for the near term.

Pensions are provided through the adequately funded FRS. FRS reported an asset to liability ratio of 82%, or an estimated 74% when adjusted by Fitch to assume a 6% rate of return (as of the June 30, 2019 measurement date).

Operating Performance

The district has maintained adequate reserve levels inclusive of available reserves beyond assigned and unassigned fund balance, well in excess of its 3.5% unrestricted fund balance policy. Fitch expects the district would take measures to make expenditure adjustments to help mitigate the impact of a potential mid-year cut in fiscal 2021 state aid revenue before relying on reserves. Management would first expect to shift expenditures to funds allocated to it under the CARES Act, but Fitch expects that the district would make expenditure reductions if the CARES Act fund was not sufficient to cover the extent of potential revenue declines. The district also expects that the state would first choose to cut categorical state aid, somewhat insulating the district to per-pupil reductions that would have an impact on core operations.

Over the previous two fiscal years, the district has relied on reserve draws to balance the budget and allow for salary increases and other priority spending. Fiscal 2019 results indicate the district finished with unrestricted general fund reserves of approximately $30 million, equal to 9% of spending, slightly lower than prior-year results. The fiscal 2020 adopted general fund budget anticipated a planned draw on reserves of $1.5 million to $2.0 million, but operations are tracking close to break-even. Fitch expects a more severe decline in reserve fund levels is possible due to larger than expected reductions in state funding and difficulty making spending cuts in light of the severity of the current downturn. Failure to regain reserves as the economy recovers, leading to what Fitch views as weaker financial resilience, could result in a downgrade in the district's ratings.

Certificates of Participation

The district has historically paid COPs debt service with revenue from its capital outlay millage, although all legally available revenues are available for this purpose. Current legislation allows Florida school districts to levy 1.5 mills for capital outlay. Three-fourths (1.125 mills) of the 1.5 mills levy is available for COPs debt service associated with new issuance after 2009. The district levied 1.462 mills in fiscal 2017 (an increase from 1.366 mills in fiscal 2016) and requires about 0.31 mill of the capital outlay millage to cover the COPs MADS. The district's capital outlay millage was increased to the statutory limit (1.5 mills) in the 2018 adopted budget.

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. The master lease covers projects in 20 of the district's schools.

Dedicated Tax Credit Profile

The sales tax bonds are payable from proceeds of a voted one-half cent school capital outlay discretionary sales surtax (capital outlay sales tax) levied within the district. County residents approved capital outlay sales tax pursuant to state statute on Sept. 5, 2006. The original tax was authorized for ten years, proceeds of which are to be used for fixed capital expenditures or fixed capital costs associated with the construction or improvement of school facilities and campuses. The sales tax was renewed in 2017, effective as of Jan. 1, 2018 for another ten years through Dec. 31, 2027.

Sales tax revenues grew at 10-year CAGR of 3.8% from fiscal years 2009 to 2019, reflecting the recovery from the Great Recession, and revenue performance has been particularly robust since fiscal 2011 as the economy improved. Fitch expects revenue to continue to grow above the rate of inflation over the long term.

To evaluate the sensitivity of the dedicated revenue stream in the current environment, Fitch applies a revenue stress test of 34% to latest audited annual totals. Pledged revenue streams that can withstand this magnitude decline and still maintain a sufficient MADS resilience cushion are expected to emerge from the current pandemic-induced slowdown with the ability to successfully navigate subsequent business cycles. The district's 2019 pledged sales tax revenue total of $28,202 could withstand a 34% decline and still cover MADS by 3.2x if fully leveraged at the ABT of 1.25x, which is not planned by the city. At the current MADS of approximately $5.8 million, pledged revenues can withstand a 79% decline and still cover MADS by 1x.

Exposure to Issuer Operations

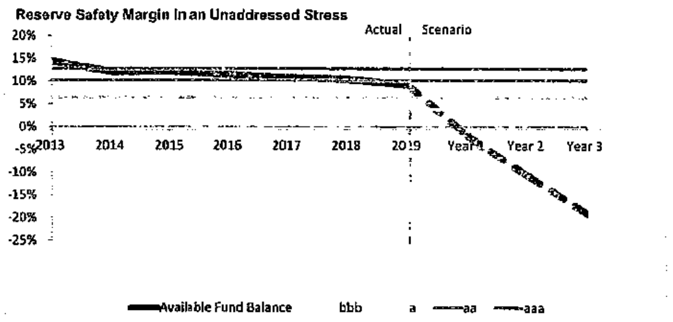
The rating on the sales tax revenue bonds is capped by the IDR of the district, as the pledged revenues do not constitute special revenues under Chapter 9 of the U.S. Bankruptcy Code.

ESG Considerations

The highest level of ESG credit relevance, if present, is a score of 3. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity(ies), either due to their nature or to the way in which they are being managed by the entity(ies). For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

Escambia County School District (FL)

Scenario Analysis



Analyst Interpretation of Scenario Results:

The district has maintained adequate reserve levels inclusive of available reserves beyond assigned and unassigned fund balance, well in excess of its 3.5% unrestricted fund balance policy. Fitch expects the district would take measures to make expenditure adjustments to help mitigate the impact of a potential mid-year cut in fiscal 2021 state aid revenue before relying on reserves. Management would first expect to shift expenditures to funds allocated to it under the CARES Act, but Fitch expects that the district would make expenditure reductions if the CARES Act fund was not sufficient to cover the extent of potential revenue declines. The district also expects that the state would first choose to cut categorical state aid, somewhat insulating the district to per pupil reductions that would have an impact on core operations.

Scenario Parameters:			Year 1	Year 2	Year 3
GDP Assumption (% Change)			(5.6%)	4.3%	2.5%
Expenditure Assumption (% Change)			0.0%	2.0%	2.0%
Revenue Output (% Change)	*Min Y1 Stress:* -5%	*Case Used:* Baseline	(10.9%)	4.8%	2.3%
Inherent Budget Flexibility				Midrange	

Revenues, Expenditures, and Fund Balance	Actuals 2013	2014	2015	2016	2017	2018	2019	Scenario Output Year 1	Year 2	Year 3
Total Revenues	262,642	283,292	290,164	293,622	297,571	299,634	306,004	272,601	285,674	292,254
% Change in Revenues	-	7.9%	2.4%	1.2%	1.3%	0.7%	2.1%	(10.9%)	4.8%	2.3%
Total Expenditures	278,936	288,610	304,275	305,657	306,989	312,604	320,870	320,870	327,288	333,834
% Change in Expenditures	-	3.5%	5.4%	0.5%	0.4%	1.8%	2.6%	0.0%	2.0%	2.0%
Transfers In and Other Sources	11,400	8,191	11,918	9,313	10,063	8,949	13,816	12,307	12,898	13,195
Transfers Out and Other Uses	-	-	-	-	-	-	-	-	-	-
Net Transfers	11,400	8,191	11,918	9,313	10,063	8,949	13,816	12,307	12,898	13,195
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(4,894)	2,873	(2,193)	(2,722)	644	(4,022)	(1,051)	(35,962)	(28,716)	(28,385)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(1.8%)	1.0%	(0.7%)	(0.9%)	0.2%	(1.3%)	(0.3%)	(11.2%)	(8.8%)	(8.5%)
Unrestricted/Unreserved Fund Balance (General Fund)	40,272	34,757	37,007	34,895	33,316	32,699	29,613	(6,350)	(35,065)	(63,451)
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	40,272	34,757	37,007	34,895	33,316	32,699	29,613	(6,350)	(35,065)	(63,451)
Combined Available Fund Bal. (% of Expend. and Transfers Out)	14.4%	12.0%	12.2%	11.4%	10.9%	10.5%	9.2%	(2.0%)	(10.7%)	(19.0%)

Reserve Safety Margins	Inherent Budget Flexibility				
Moderate	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	40.7%	20.4%	12.7%	7.6%	5.1%
Reserve Safety Margin (aa)	30.5%	15.3%	10.2%	6.4%	3.8%
Reserve Safety Margin (a)	20.4%	10.2%	6.4%	3.8%	2.5%
Reserve Safety Margin (bbb)	7.6%	5.1%	3.8%	2.5%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's scenario analysis assumes the GDP and expenditure growth sequence shown in the 'Scenario Parameters' section. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve

The ratings above were solicited and assigned or maintained at the request of the rated entity/issuer or a related third party. Any exceptions follow below.