

New Issue: MOODY'S ASSIGNS MIG 1 RATING TO PALM BEACH COUNTY SCHOOL DISTRICT'S (FL) SALE OF \$115 MILLION TAX ANTICIPATION NOTES, SERIES 2011

Global Credit Research - 02 Sep 2011

MIG 1 RATING AFFECTS \$115 MILLION IN CURRENTLY-ISSUED NOTES

Primary & Secondary Education
FL

Moody's Rating

ISSUE	RATING
Tax Anticipation Notes, Series 2011	MIG 1
Sale Amount \$115,000,000	
Expected Sale Date 09/14/11	
Rating Description Tax Anticipation Notes	

Opinion

NEW YORK, Sep 2, 2011 -- Moody's Investors Service has assigned a MIG 1 rating to Palm Beach County School District's (FL) \$115 million Tax Anticipation Notes, Series 2011. Pledged revenues for note repayment include operating ad valorem taxes received in the 2011-2012 fiscal year. The notes are also payable from, but not secured by, any legally available district non-ad valorem revenue. The current issuance represents a moderate 13.7% of anticipated property tax receipts and modest 8.8% of total estimated receipts. The notes are dated September 29, 2011 and mature January 26, 2012. Note proceeds will be used for operating cash flow requirements for the 2011-2012 fiscal year that began July 1, 2011, until sufficient property tax receipts are collected, usually beginning in November. The district is an annual issuer of TANs. Moody's expects adequate market access for the notes as the district reportedly received 12 bids on its TAN issue last year and 13 bids on its TAN issue the prior year, all from major banking firms. Moody's maintains a Aa3 rating on the School Board's \$1.9 billion outstanding rated Certificates of Participation (COPS).

SUMMARY RATING RATIONALE

The highest short-term rating reflects the district's ample cash flow margins at the time of note repayment and favorable legal provisions, including segregation of funds three-weeks prior to note maturity. Other factors incorporated in the MIG 1 rating include the district's stable finances, broad-based albeit struggling economy, and diverse tax base, which has experienced declines in recent years. This issuance of notes is the same amount as the Series 2010 notes issued last year. A similarly-sized note issue is anticipated next fiscal year.

STRENGTHS

- Accuracy of past projections due to major cash flow components being reliable
- Availability of significant funds at time of note-repayment
- Stable financial operations

CHALLENGES

- Weakened economy which has negatively impacted property tax and state funding levels
- Relatively short set-aside period for note repayment funds

DETAILED CREDIT DISCUSSION

PROJECTED CASH FLOW BASED ON SOUND ASSUMPTIONS; SATISFACTORY CASH MARGINS MAINTAINED

The fiscal 2011-2012 cash flow projections are based upon the district's proposed budget, the state's adopted budget, the certified local property tax roll, and negotiated union contracts. With these critical components in place, the district's cash flow estimates are considered to be reliable. Notes represent a manageable level of borrowing, at 8.8% of available receipts and 13.7% of estimated property tax receipts. Actual results have generally outperformed conservative projections. Cash flow projections show ample monthly cash balances through note repayment. After note repayment at the end of January 2012, the ending monthly cash balance is expected to be \$394.9 million (30.1% of total annual estimated receipts), providing 3.43 times coverage of notes at that point. Fiscal 2012 ending cash balance is projected to decrease by about \$108.8 million to \$107.3 million (8.2% of total annual estimated receipts). A \$55 million decline in cash was anticipated in last year's fiscal 2011 cash flow projections, although the district actually finished the year with an \$83.9 million increase in cash, partly reflecting carry-over of about \$36 million in one-time Jobs Bill funds but also cost control measures and excess property tax collections. The district's overall proven favorable performance in relation to projections, as well as the ample ending balances at time of note repayment, are positive credit considerations.

The district has covenanted in the note resolution to set aside sufficient funds or investments for note repayment three weeks (21 days) prior to the January 26, 2012 maturity date. The district has historically invested these funds conservatively and anticipates retaining these funds in its general banking account. In addition to operating ad valorem receipts, the district has the ability to use other available general or capital revenues. Officials indicate that between \$100 million and \$300 million in capital funds are available for internal borrowing, if needed.

The district's projections show an overall 5% decrease (\$68.7 million) in fiscal 2012 receipts, exclusive of TAN proceeds, over actual fiscal 2011, reflecting a 5.9% (\$20.7 million) decrease in State aid, and a 2.2% (\$18.7 million) expected drop in property tax receipts, due to a 1.8% decline in property values with a marginal increase in operating millage (0.036 mills). Property taxes are anticipated to compose approximately 64.2% of total fiscal 2012 receipts and state aid another 25.3%. Disbursements are anticipated to increase 11.4% (\$148 million), exclusive of TAN repayment, reflecting a 10.2% (\$103.8 million) increase in salaries and benefits, indicative of collective bargaining agreements, and a 15.9% increase (\$44.2 million) in vendor payments. Officials expect to issue TANs in an amount roughly equivalent to this issue next year.

FAVORABLE DISTRICT CREDIT FACTORS WITH FALTERING ECONOMY

Palm Beach County's employment growth has faltered, given the pullback in construction and real estate employment and the current housing market correction. Despite recent economic softening, the county's economy has broadened over the years from its traditional tourism, agriculture and construction activities with new business sectors such as aerospace, medical and biomedical, and business and professional services. The county's affluent population, with per capita income among the highest in Florida, has also been a stabilizing factor in the economy. The number of residents 65 and older now totals about one-fifth of the population, but these retirees are affluent and are generating service jobs. Median housing values have declined from the peak of \$390,100 in 2005 to about \$228,900 in 2010 and there has been some improvement in the number of homes for sale, from 30,100 in 2009 to 21,683 in 2011. Office vacancy rates countywide in 2010 were still high at 26.3%. Declines in construction and real estate as well as manufacturing employment are reflected in the county's 11.0% unemployment rate in June 2011 (compared to 11.1% for the state and 9.3% for the U.S.). The district's tax base has declined 22.4% over the last four fiscal years to \$123.8 billion from its fiscal 2008 peak of \$170.4 billion, with the fiscal 2012 decline of 1.8% being relatively modest.

The county also has an established tourism sector which is a primary driver in the economy, employing 71,100 people (leisure and hospitality industries), although this sector had softened in the recessionary period, more recent improvement, as measured by tourist tax collections and number of seasonal residents, indicate notable improvement. Palm Beach County is the second location of The Scripps Research Institute, one of the world's largest biomedical research institutes (non-profit). When fully constructed, the facility, as well as ancillary companies expected to come to the county, are projected to have a significant economic impact in the local economy as well as the state. In addition, Max Planck, a German biomedical firm, has also located in the county and should complement the Scripps development, adding more depth and higher-paying jobs to the economy.

According to Moody's Economy.com (July 2011), the West Palm Beach area economy will thrive as the U.S. recovery accelerates. Service expansion will broaden, although tourism, education and healthcare will continue to catalyze WES's recovery. In the long term, an emerging biotech industry and retiree in-migration will power expansion, enabling WES to be an above-average performer.

Moody's expects that the district's financial operations will be challenged by funding uncertainties, ongoing state-mandated class size reductions and property tax reform measures, although officials conservative budgeting and timely response to revenue losses has resulted in favorable operating results thus far. Despite a \$28.3 million reduction in the General Fund balance in fiscal 2009, the district has managed reasonably well financially in this challenging economic environment without reverting to major layoffs. Fiscal 2010 results reported a total General Fund balance of \$97 million (7.4% of total G.F. revenues), an increase of \$4.6 million, and an available balance of \$77.9 million (6% of total G.F. revenues). The available \$77.9 million balance is composed of a \$44.4 million contingency reserve and \$33.5 million undesignated balance. In fiscal 2011 the district, as it typically does annually, had budgeted a significant amount of reserves (\$55.1 million) to balance operations, although unaudited General Fund balance is estimated to increase by almost \$90 million to \$186.9 million (13.6% of revenues) as a result of retaining Jobs Bill funds, better property tax collections, expenditure controls and some one-time revenues. For fiscal 2012, the district has again budgeted a substantial \$109 million of expected reserves, but anticipates again outperforming budget and maintaining adequate reserves at a reduced level. While officials are planning for an anticipated \$54 million gap in fiscal 2013 (due to the loss of Jobs Bill funds and certain one-time revenues), the district has dealt positively with revenue shortfalls to date.

Beginning in fiscal 2010 the state allowed districts to impose an additional 0.25 mills (Critical Millage) for a two-year period with Board approval for either operating or capital needs (not both) with the understanding that voter approval would be required after that period to maintain the millage. District officials have imposed the 0.25 mill Critical Millage for operating needs in fiscal 2011 and received voter approval to extend the millage (for the statutory maximum of four years) in a November 2010 referendum. The critical millage (about \$31 million annually) funds mostly arts, music, physical education and career development positions. After failing to meet class size reduction mandates in fiscal 2011, officials are expecting to achieve mandated class size targets in the current fiscal year.

The district has an actuarially determined GASB 45 (OPEB) liability of \$161.4 million at July 1, 2010 with an annual required contribution (ARC) of \$13.6 million, but is currently funding only a smaller pay-as-you-go portion annually.

WHAT COULD MAKE THE RATING GO DOWN:

- Rapid depletion of cash
- Significant delays in mailing or reception of property taxes

KEY STATISTICS:

Security: Operating property tax receipts for fiscal 2011-2012 fiscal year; also payable from, but not secured by, legally available non-ad valorem revenues

Notes Dated: September 29, 2011

Note Maturity: January 26, 2012

Note Set-Aside (per resolution): 21 days prior to note maturity.

Projected Ending Cash,

After Note Repayment (January 2011): \$394.9 million (30.1% of total est. receipts)

Year-End (After Set-Aside): \$107.3 million (8.2% of total estimated receipts)

TAN borrowing as % of estimated property tax receipts: 13.7%.

TAN borrowing as % of total available receipts: 8.8%.

2010 Population Estimate: 1,286,461

FY 2012 Full Valuation: \$123.8 billion

Full value per capita: \$123,771

County 1999 Per Capita Income: \$28,801 (133.6% of State, 133.4% of US)

County 1999 Median Family Income: \$53,701 (117.7% of State, 107.3% of US)

FY 2011 (unaudited) Total General Fund balance: \$186.9 million (13.6% of General Fund revenues)

Unemployment Rate (County), June 2011: 11.0% (State, 11.1%; U.S., 9.3%)

The principal methodology used in this rating was Short-Term Cash Flow Notes published in May 2007. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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