

## **Information re: Osceola County School Board's Fund Balance Policy**

The information below represents the foundations for the Osceola County School Board's cautious fiscal policy:

- **Section 1011.051 – Guidelines for general funds, Florida Statutes**, requires school districts to maintain a minimum of a 3% fund balance or face possible takeover by a financial emergency board appointed by the Commissioner of the Florida Department of Education;
- **Section 218.503 – Determination of financial emergency, Florida Statutes**, defines the negative consequences that may occur during a financial emergency;
- In order to avoid such negative consequences, our **Osceola County School Board Rule 7.10 – School Budget System** requires the School District to maintain a minimum of a 6% fund balance;
- The **Government Finance Officers Association's (GFOA) Best Practice on Fund Balance Guidelines for the General Fund** states:

*“Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures. The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances. Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. ...”* [Retrieved from: <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>]

- In addition, in order to have a **good bond rating from agencies such as Fitch Ratings and Moody's Investor Service**, the School District must maintain a fund balance that protects against unexpected costs or revenue shortfalls and remains consistent year over year. Bond ratings determine the cost of capital for which school districts can borrow funds to construct new schools and maintain our existing facilities.

Select Year:  

## The 2022 Florida Statutes (including Special Session A)

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[Title XLVIII](#)[Chapter 1011](#)[View Entire Chapter](#)

## EARLY LEARNING-20 EDUCATION CODE

## PLANNING AND BUDGETING

**1011.051 Guidelines for general funds.**—The district school board shall maintain a general fund ending fund balance that is sufficient to address normal contingencies.

(1) If at any time the portion of the general fund's ending fund balance not classified as restricted, committed, or nonspendable in the district's approved operating budget is projected to fall below 3 percent of projected general fund revenues during the current fiscal year, the superintendent shall provide written notification to the district school board and the Commissioner of Education. If such financial condition exists for 2 consecutive fiscal years, the superintendent shall reduce the district's administration expenditures reported pursuant to s. [1010.215\(4\)\(a\)](#) in proportion to the reduction in the general fund's ending balance or the reduction in student enrollment, whichever is greater.

(2)(a) If at any time the portion of the general fund's ending fund balance not classified as restricted, committed, or nonspendable in the district's approved operating budget is projected to fall below 2 percent of projected general fund revenues during the current fiscal year, the superintendent shall provide written notification to the district school board and the Commissioner of Education. Within 14 days after receiving such notification, if the commissioner determines that the district does not have a plan that is reasonably anticipated to avoid a financial emergency as determined pursuant to s. [218.503](#), the commissioner shall appoint a financial emergency board that shall operate under the requirements, powers, and duties specified in s. [218.503\(3\)\(g\)](#).

(b) If any of the conditions identified in s. [218.503\(1\)](#) existed in the 2015-2016 school year or thereafter, the department shall contract with an independent third party to conduct an investigation of all accounts and records to determine the cause of the deficit; what efforts, if any, were made to avoid the deficit; and whether any of the conditions identified in s. [1011.10](#) have occurred. The investigation must include a detailed review and analysis of documents and records, including, but not limited to, budget reports, journal entries, budget methodologies, staff emails, hard copy records, monthly financial statements, quarterly revenue and expenditure reports, finance staff job descriptions, and minutes from meetings. The results of the investigation must include recommendations for corrective action and controls to avoid a reoccurrence of a future budget shortfall. A final report shall be provided to the district school board, the department, the Legislative Auditing Committee, and the district's financial emergency board, if applicable.

**History.**—s. 11, ch. 2009-3; s. 24, ch. 2011-144; s. 13, ch. 2018-5.

Select Year:  

## The 2022 Florida Statutes (including Special Session A)

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[Title XIV](#)  
TAXATION AND  
FINANCE

[Chapter 218](#)  
FINANCIAL MATTERS PERTAINING TO POLITICAL  
SUBDIVISIONS

[View Entire  
Chapter](#)

### **218.503 Determination of financial emergency.—**

(1) Local governmental entities, charter schools, charter technical career centers, and district school boards shall be subject to review and oversight by the Governor, the charter school sponsor, the charter technical career center sponsor, or the Commissioner of Education, as appropriate, when any one of the following conditions occurs:

- (a) Failure within the same fiscal year in which due to pay short-term loans or failure to make bond debt service or other long-term debt payments when due, as a result of a lack of funds.
- (b) Failure to pay uncontested claims from creditors within 90 days after the claim is presented, as a result of a lack of funds.
- (c) Failure to transfer at the appropriate time, due to lack of funds:
  1. Taxes withheld on the income of employees; or
  2. Employer and employee contributions for:
    - a. Federal social security; or
    - b. Any pension, retirement, or benefit plan of an employee.
- (d) Failure for one pay period to pay, due to lack of funds:
  1. Wages and salaries owed to employees; or
  2. Retirement benefits owed to former employees.

(2) A local governmental entity shall notify the Governor and the Legislative Auditing Committee; a charter school shall notify the charter school sponsor, the Commissioner of Education, and the Legislative Auditing Committee; a charter technical career center shall notify the charter technical career center sponsor, the Commissioner of Education, and the Legislative Auditing Committee; and a district school board shall notify the Commissioner of Education and the Legislative Auditing Committee, when one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board. In addition, any state agency must, within 30 days after a determination that one or more of the conditions specified in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity, charter school, charter technical career center, or district school board, notify the Governor, charter school sponsor, charter technical career center sponsor, or the Commissioner of Education, as appropriate, and the Legislative Auditing Committee.

(3) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the local governmental entity or district school board, the Governor or his or her designee shall contact the local governmental entity or the Commissioner of Education or his or her designee shall contact the district school board, as appropriate, to determine what actions have been taken by the local governmental entity or the district school board to resolve or prevent the condition. The information requested must be provided within 45 days after the date of the request. If the local governmental entity or the district school board does not comply with the request, the Governor or his or her designee or the Commissioner of Education or his or her designee shall notify the Legislative Auditing Committee, which may take action pursuant to s. [11.40\(2\)](#). The Governor or the Commissioner of Education, as appropriate, shall determine whether the local governmental entity or the district school board needs state assistance to resolve or prevent the condition. If state assistance is needed,

the local governmental entity or district school board is considered to be in a state of financial emergency. The Governor or the Commissioner of Education, as appropriate, has the authority to implement measures as set forth in ss. 218.50-218.504 to assist the local governmental entity or district school board in resolving the financial emergency. Such measures may include, but are not limited to:

- (a) Requiring approval of the local governmental entity's budget by the Governor or approval of the district school board's budget by the Commissioner of Education.
- (b) Authorizing a state loan to a local governmental entity and providing for repayment of same.
- (c) Prohibiting a local governmental entity or district school board from issuing bonds, notes, certificates of indebtedness, or any other form of debt until such time as it is no longer subject to this section.
- (d) Making such inspections and reviews of records, information, reports, and assets of the local governmental entity or district school board as are needed. The appropriate local officials shall cooperate in such inspections and reviews.
- (e) Consulting with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary to bring the books of account, accounting systems, financial procedures, and reports into compliance with state requirements.
- (f) Providing technical assistance to the local governmental entity or the district school board.
- (g)1. Establishing a financial emergency board to oversee the activities of the local governmental entity or the district school board. If a financial emergency board is established for a local governmental entity, the Governor shall appoint board members and select a chair. If a financial emergency board is established for a district school board, the State Board of Education shall appoint board members and select a chair. The financial emergency board shall adopt such rules as are necessary for conducting board business. The board may:
  - a. Make such reviews of records, reports, and assets of the local governmental entity or the district school board as are needed.
  - b. Consult with officials and auditors of the local governmental entity or the district school board and the appropriate state officials regarding any steps necessary to bring the books of account, accounting systems, financial procedures, and reports of the local governmental entity or the district school board into compliance with state requirements.
  - c. Review the operations, management, efficiency, productivity, and financing of functions and operations of the local governmental entity or the district school board.
  - d. Consult with other governmental entities for the consolidation of all administrative direction and support services, including, but not limited to, services for asset sales, economic and community development, building inspections, parks and recreation, facilities management, engineering and construction, insurance coverage, risk management, planning and zoning, information systems, fleet management, and purchasing.
2. The recommendations and reports made by the financial emergency board must be submitted to the Governor for local governmental entities or to the Commissioner of Education and the State Board of Education for district school boards for appropriate action.
- (h) Requiring and approving a plan, to be prepared by officials of the local governmental entity or the district school board in consultation with the appropriate state officials, prescribing actions that will cause the local governmental entity or district school board to no longer be subject to this section. The plan must include, but need not be limited to:
  1. Provision for payment in full of obligations outlined in subsection (1), designated as priority items, which are currently due or will come due.
  2. Establishment of priority budgeting or zero-based budgeting in order to eliminate items that are not affordable.
  3. The prohibition of a level of operations which can be sustained only with nonrecurring revenues.
  4. Provisions implementing the consolidation, sourcing, or discontinuance of all administrative direction and support services, including, but not limited to, services for asset sales, economic and community development, building inspections, parks and recreation, facilities management, engineering and construction, insurance coverage, risk management, planning and zoning, information systems, fleet management, and purchasing.

(4)(a) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter school, the charter school sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter school governing body to determine what actions have been taken by the charter school governing body to resolve or prevent the condition. The Commissioner of Education has the authority to require and approve a financial recovery plan, to be prepared by the charter school governing body, prescribing actions that will resolve or prevent the condition.

(b) Upon notification that one or more of the conditions in subsection (1) have occurred or will occur if action is not taken to assist the charter technical career center, the charter technical career center sponsor or the sponsor's designee and the Commissioner of Education shall contact the charter technical career center governing body to determine what actions have been taken by the governing body to resolve or prevent the condition. The Commissioner of Education may require and approve a financial recovery plan, to be prepared by the charter technical career center governing body, prescribing actions that will resolve or prevent the condition.

(c) The Commissioner of Education shall determine if the charter school or charter technical career center needs a financial recovery plan to resolve the condition. If the Commissioner of Education determines that a financial recovery plan is needed, the charter school or charter technical career center is considered to be in a state of financial emergency.

The Department of Education, with the involvement of sponsors, charter schools, and charter technical career centers, shall establish guidelines for developing a financial recovery plan.

(5) A local governmental entity or district school board may not seek application of laws under the bankruptcy provisions of the United States Constitution except with the prior approval of the Governor for local governmental entities or the Commissioner of Education for district school boards.

(6) The failure of the members of the governing body of a local governmental entity or the failure of the members of a district school board to resolve a state of financial emergency constitutes malfeasance, misfeasance, and neglect of duty for purposes of s. 7, Art. IV of the State Constitution.

**History.**—s. 8, ch. 79-183; s. 54, ch. 89-169; s. 1180, ch. 95-147; s. 27, ch. 96-324; s. 29, ch. 97-96; s. 132, ch. 99-251; s. 1, ch. 2001-354; s. 35, ch. 2004-305; s. 5, ch. 2006-190; s. 6, ch. 2007-6; s. 5, ch. 2009-214; s. 21, ch. 2011-144; s. 2, ch. 2012-38; s. 23, ch. 2019-15.

## CHAPTER 7.00 - BUSINESS SERVICES

### SCHOOL BUDGET SYSTEM

7.10+

- I. The Superintendent shall prepare an annual School District budget in the manner prescribed by the State Board of Education. In formulating the budget, the Superintendent shall take into consideration the immediate and long-range needs of the District's school system and student achievement data obtained pursuant to Florida Statutes. The Superintendent shall submit the proposed annual budget to the School Board for review. The School Board shall adopt a balanced budget in accordance with Florida Statutes and submit it to the state on or before the date prescribed in State Board of Education rules or established by the Commissioner of Education.
- II. In order to ensure appropriate preparation and management of the District budget, the Superintendent or designee is authorized to develop and implement appropriate budgetary development, accounting, and record keeping procedures consistent with mandatory federal and state laws, rules and regulations, and with School Board rules. Such procedures shall be consistent with good business practice.
- III. Expenditures shall be made in accordance with state law and rules of the School Board of Education.
- IV. The proposed budget and any amendments submitted to the School Board by the Superintendent each year shall include the projected ending fund balance not classified as assigned, restricted, committed, or nonspendable in all funds of zero or greater and, in the General Fund, a projected ending fund balance not classified as assigned, restricted, committed, or nonspendable of at least 3% of estimated general fund revenues. If, at any time, the projected ending fund balance not classified as assigned, restricted, committed, or nonspendable falls below 3%, the Superintendent shall provide written notification to the School Board and the Commissioner of Education in accordance with Section 1011.051, Florida Statutes. If the projected ending fund balance not classified as assigned, restricted, committed, or nonspendable falls below 2% of estimated revenues, the Superintendent shall file, within 14 days, a plan with the Commissioner of Education demonstrating how the district will avoid a financial emergency as defined by Section 218.503, Florida Statutes.
- V. The Superintendent and Chief Business and Finance Officer are authorized to assign General Fund fund balance for specific purposes. Any remaining fund balance is unassigned. An amount equal to six percent (6%) of General Fund revenues and other financing sources shall be maintained within the unassigned fund balance as a contingency reserve. The Superintendent shall obtain approval from the School Board if at any time it is projected that this balance will not be maintained.

## CHAPTER 7.00 - BUSINESS SERVICES

- VI. For the School District's Health and Life Self-Insurance Trust Fund, the net position at the end of each fiscal year shall be maintained at the value of two (2) months or sixty (60) days of average claims expense paid over the prior fiscal year, as required by the Florida Department of Financial Services, Office of Insurance Regulation (OIR), in order for the plan to be actuarially sound. The Superintendent shall obtain approval from the School Board if at any time it is projected that this balance shall not be so maintained.
- VII. With respect to long-term debt obligations that are either secured by the capital outlay tax [Section 1011.71(2), Florida Statutes] or not secured by any other revenue source, the total of payments due under all such long-term debt obligations shall not exceed the projected revenues from the capital outlay tax levy for any fiscal year, as defined in Florida Statutes. Failure to meet this target must be disclosed to the School Board and approved by majority vote. Such disclosure shall specifically state the amount of the total payments due under such long-term debt obligations and that it deviates from this policy.
- VIII. The tentative budget, the adopted budget, and any amended budget(s) shall be posted on the District's official website as required by law.

**STATUTORY AUTHORITY:** 1001.41, 1001.42, F.S.

**LAW(S) IMPLEMENTED:** 1001.43, 1008.385, 1011.01 – 1011.18,  
1011.051, 1011.71, F.S.

**STATE BOARD OF EDUCATION RULES:** 6A-1.002, 6A-1.004, 6A-1.006,  
6A-1.007, 6A-1.0071

**HISTORY:** **REVISION(S):** 05/01/07, 08/25/09, 08/09/11,  
02/07/12, 06/03/14, 12/01/20  
**FORMERLY:** 2.1, 2.2, 2.3





BEST PRACTICES

## Fund Balance Guidelines for the General Fund

Governments should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.<sup>1</sup> While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.<sup>2</sup> The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.
2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

**GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.<sup>3</sup> Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.<sup>4</sup> In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.**

*Appropriate Level.* The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.<sup>5</sup> The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.<sup>6</sup> Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

### *Use and Replenishment.*

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;



4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

*Unrestricted Fund Balance Above Formal Policy Requirement.* In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.
6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

*This best practice was previously titled *Appropriate Level of Unrestricted Fund Balance in the General Fund*.*

## ISSUER COMMENT

13 September 2021

### RATING

Issuer Rating<sup>1</sup>

Aa2 No Outlook

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# School District of Osceola County, FL

## Annual comment on Osceola County SD

### Issuer profile

School District of Osceola County is located in central Florida and is headquartered in Kissimmee, approximately 15 miles south of Orlando. The district's enrollment was 54,367 in 2020.

### Key indicators

Exhibit 1

#### Osceola County School District, FL

	2017	2018	2019	2020	Aa Medians
<b>Economy</b>					
Resident income	83.5%	84.2%	84.0%	N/A	120.3%
Full value (\$000)	\$32,673,203	\$35,439,513	\$38,932,739	\$43,396,755	\$3,767,803
Population	325,168	338,619	351,955	N/A	32,239
Full value per capita	\$100,481	\$104,659	\$110,619	N/A	\$110,286
Enrollment	51,966	53,261	54,285	54,367	4,353
Enrollment trend	N/A	1.2%	1.8%	1.5%	0.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$564,192	\$586,458	\$643,520	\$663,106	\$70,864
Available fund balance (\$000)	\$61,117	\$65,997	\$71,050	\$78,980	\$17,424
Net cash (\$000)	\$96,388	\$97,422	\$104,960	\$101,177	\$20,807
Available fund balance ratio	10.8%	11.3%	11.0%	11.9%	26.1%
Net cash ratio	17.1%	16.6%	16.3%	15.3%	31.0%
<b>Leverage</b>					
Debt (\$000)	\$306,674	\$291,153	\$270,437	\$249,135	\$48,829
ANPL (\$000)	\$824,218	\$768,091	\$716,921	\$877,741	\$92,102
OPEB (\$000)	N/A	\$19,833	\$20,374	\$15,373	\$10,438
Long-term liabilities ratio	N/A	184.0%	156.6%	172.3%	280.7%
Implied debt service (\$000)	\$17,741	\$22,779	\$21,453	\$19,717	\$3,402
Pension tread water (\$000)	\$24,035	\$26,973	\$27,529	\$30,628	\$3,018
OPEB contributions (\$000)	N/A	\$1,002	\$1,424	\$1,047	\$440
Fixed-costs ratio	N/A	8.7%	7.8%	7.8%	11.9%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Osceola County School District, FL's financial statements and Moody's Investors Service

### Credit overview

The credit position of Osceola County SD is strong. Also, the Aa2 rating is slightly higher than the US school district median of Aa3. Key credit factors include a satisfactory economy, a solid enrollment trend, an adequate financial position, modest leverage and low fixed costs.

### Economy

The economy of Osceola County SD is solid and the enrollment trend is solid. Overall, the factor is slightly unfavorable with relative to Aa2 rating.

- » The average resident income is satisfactory at 84% of US.
- » The three year enrollment trend is strong at 1.5%.
- » The full value per capita of \$123,302 is healthy.

### Financial performance

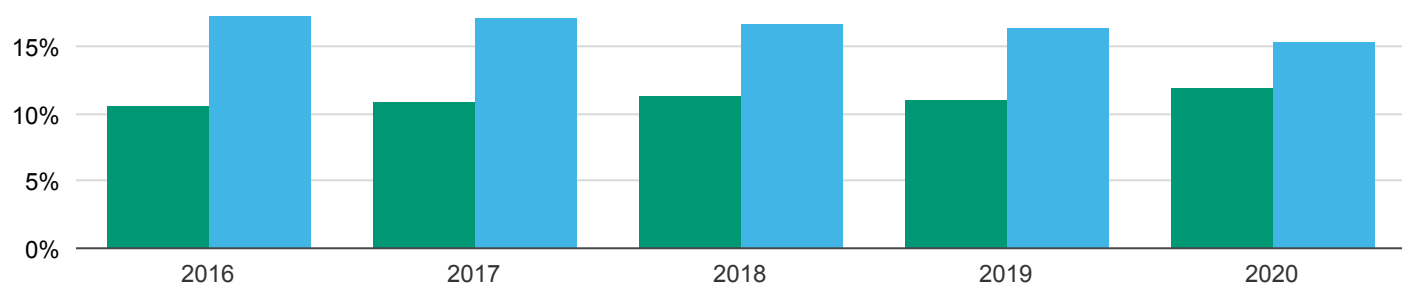
The district has an adequate financial profile that is in line with respect to the rating of Aa2. Notable, while the district's cash and reserves fall below the median as a percent of operating revenues, it is well above peers on a nominal basis.

- » Cash balance ratio is satisfactory at 15.3%.
- » Available fund balance ratio of 11.9% is adequate.

Exhibit 2

#### Fund balance and cash balance as percentage of operating revenues

■ Available fund balance ratio (available fund balance / operating revenue) ■ Net cash ratio (net cash / operating revenue)



Source: Issuer financial statements; Moody's Investors Service

### Leverage

The leverage of Osceola County SD is modest and fixed costs are low. Overall, this factor is roughly consistent with Aa2 rating.

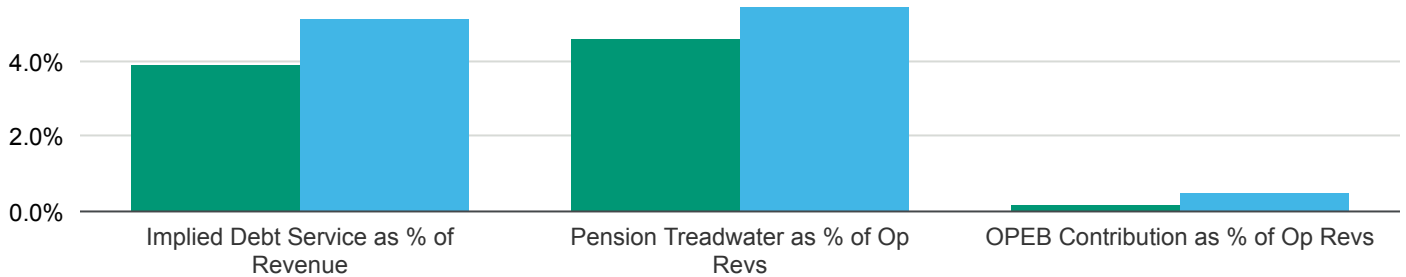
- » The ratio of long-term liabilities (Debt + ANPL + OPEB) to operating revenues is low at 172.3%.
- » Fixed-costs ratio is modest at 7.8%.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

Exhibit 3

## Fixed costs as a percentage of operating revenues

■ District ■ Median



Source: Issuer financial statements; Moody's Investors Service

**Institutional framework**

Florida school districts have an Institutional Framework score <sup>2</sup> of A. The state typically controls the bulk of school districts' revenue by setting per-pupil spending, which is comprised of state aid and local property taxes. The state has in recent years provided for modest annual increases in aid, but sometimes modestly reduced allocations in the past. Districts can go to voters for additional millage or sales taxes for operations or capital.

## Appendix

Exhibit 4

### Key Indicators Glossary

	Definition	Source
<b>Economy</b>		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
<b>Financial performance</b>		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
<b>Leverage</b>		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the local government's Issuer Rating. Issuer Ratings as applied to US local governments typically reflect an unlimited general obligation pledge, which may have security and structural features in some states that improve credit quality for general obligation bondholders.
- 2 The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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REPORT NUMBER

1292304

# Osceola County School District, Florida

## Full Rating Report

### Ratings

Issuer Default Rating AA-

### Outstanding Debt

Osceola County School Board  
Certificates of Participation A+

Osceola County School District  
Sales Tax Revenue Bonds AA-

Osceola County School District  
Sales Tax Revenue Refunding  
Bonds AA-

### Rating Outlook

Stable

The 'AA-' Issuer Default Rating (IDR) reflects Osceola County School District's solid revenue growth prospects and expenditure flexibility, strong financial resilience, and a low liability burden, offset by a very limited legal ability to raise revenues.

The 'A+' rating on the certificates of participation (COPs) is one notch below the IDR, reflecting the slightly higher degree of optionality associated with lease payments subject to appropriation.

The upgrade to 'AA-' from 'A' on the sales tax bonds reflects the application of Fitch Ratings' revised criteria for U.S. state and local governments, released on April 18, 2016, and specifically the enhanced analysis of the pledged revenue stream's resilience to scenario-estimated revenue declines. The rating also considers the pledged revenue streams' solid growth prospects and the high likelihood that the revenue stream will not be leveraged down to the 1.2x MADS additional bonds test (ABT), significantly enhancing overall resilience.

### Key Rating Drivers

**Economic Resource Base:** The district, which is coterminous with Osceola County, is located in east central Florida within the Orlando metropolitan service area (MSA), approximately 15-20 miles from Walt Disney World Resorts and Universal Studios. The leisure and hospitality sector remains the key driver of economic activity, but continued expansion within the fields of medical research and technology could serve as the gateway to a more diverse and higher wage economy. The district has experienced significant population growth, with a 2015 population of approximately 324,000 that has grown about 21% since 2010. Enrollment for fiscal 2016 is approximately 61,231, about a 5% increase over the prior year. Growth is projected to range from 2%-3% annually over the next few years. The district operates 52 school facilities.

**Revenue Framework ('a' factor assessment):** District operations are funded through a combination of state aid and local property taxes. The district's 10-year general fund revenue growth rate (through fiscal 2015) exceeded GDP growth. Fitch believes the district's revenue growth will be slightly tempered based on Fitch's expectation that Florida's growth prospects will be below GDP but above inflation. Enrollment growth projections similar to past trends also support solid revenue growth expectations. The district has very limited independent ability to raise revenues.

**Expenditure Framework ('aa' factor assessment):** The district's natural pace of spending growth is expected to be close to or marginally above that of revenue. Enrollment growth and staffing costs are the main expenditure drivers. The district has good control over employee-related expenditures, with some constraints related to class size requirements and maintenance of adequate staff compensation levels. Carrying costs associated with debt service and retiree costs are moderately low.

**Long-Term Liability Burden ('aaa' factor assessment):** Fitch expects the district's long-term liability will remain low even with the possibility of moderate future debt issuance. The district participates in the adequately-funded Florida Retirement System (FRS).

**Operating Performance ('aaa' factor assessment):** The district has historically maintained sound financial flexibility despite four years of planned general fund drawdowns for operational needs. Fitch believes that the district — supported by its solid expenditure flexibility — would maintain a satisfactory reserve safety margin in a moderate economic decline scenario.

### Related Research

[Fitch Affirms Osceola County School Board, FL's IDR at 'AA-'; Upgrades Revs to 'AA-' \(December 2016\)](#)

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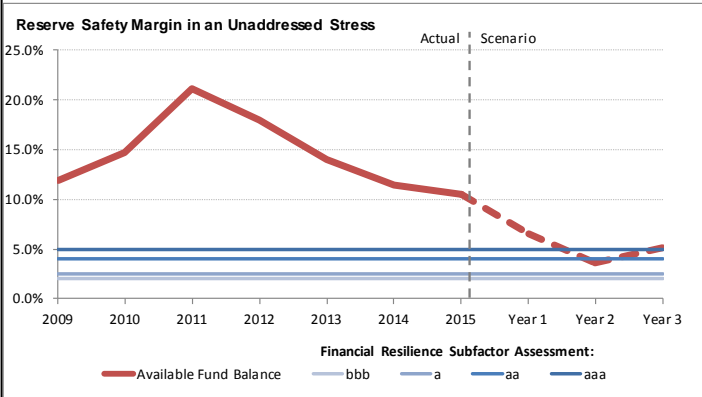
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Osceola County School District (FL)

Scenario Analysis

v. 1.10 2016/06/22



**Analyst Interpretation of Scenario Results:**

Healthy fund balances, low revenue volatility, and moderate budget flexibility create a strong capacity to maintain adequate reserves, even if a moderate economic downturn were to result in revenue stress. Available balances outside the general fund, specifically capital funds, augment flexibility.

**Scenario Parameters:**

	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	3.1%	6.5%
Inherent Budget Flexibility	Midrange		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	359,802	347,098	358,265	347,307	365,596	390,359	409,156	405,064	417,718	444,795
% Change in Revenues	-	(3.5%)	3.2%	(3.1%)	5.3%	6.8%	4.8%	(1.0%)	3.1%	6.5%
Total Expenditures	372,099	351,714	351,310	369,382	379,878	410,803	423,948	432,427	441,075	449,897
% Change in Expenditures	-	(5.5%)	(0.1%)	5.1%	2.8%	8.1%	3.2%	2.0%	2.0%	2.0%
Transfers In and Other Sources	17,242	15,737	14,032	14,790	6,018	14,628	11,017	10,906	11,247	11,976
Transfers Out and Other Uses	233	-	-	-	-	-	-	-	-	-
Net Transfers	17,009	15,737	14,032	14,790	6,018	14,628	11,017	10,906	11,247	11,976
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	4,712	11,121	20,988	(7,285)	(8,263)	(5,816)	(3,775)	(16,456)	(12,110)	6,874
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.3%	3.2%	6.0%	(2.0%)	(2.2%)	(1.4%)	(0.9%)	(3.8%)	(2.7%)	1.5%
Unrestricted/Unreserved Fund Balance (General Fund)	44,256	51,823	74,364	66,295	53,078	47,078	44,672	28,216	16,106	22,980
Other Available Funds (Analyst Input)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Analyst Input)	44,256	51,823	74,364	66,295	53,078	47,078	44,672	28,216	16,106	22,980
Combined Available Fund Bal. (% of Expend. and Transfers Out)	11.9%	14.7%	21.2%	17.9%	14.0%	11.5%	10.5%	6.5%	3.7%	5.1%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. 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 safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History — IDR

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	12/1/16
AA-	Affirmed	Stable	1/20/12
AA-	Affirmed	Positive	2/25/11
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	9/23/04
A+	Assigned	—	4/16/01

Rating History — COPs

Rating	Action	Outlook/ Watch	Date
A+	Affirmed	Stable	12/1/16
A+	Revised	Stable	4/30/10
A	Revised	Positive	4/9/10
A	Assigned	—	4/12/07

Rating Sensitivities

**Maintenance of Financial Flexibility:** The rating is sensitive to material changes in the district's solid expenditure flexibility, low long-term liability burden, and expectations for maintenance of adequate reserve levels through a typical economic cycle.

**Sales Tax Coverage:** A material contraction of revenues or further leveraging of the revenue stream that decreases debt service coverage could pressure the rating.

Credit Profile

Proximity to Disney World, Universal Studios, and other local attractions underpin the county's tourist and service-based economy. Within the county are numerous hotels and resorts providing more affordable lodging than in neighboring Orange County for theme park guests. The tourism sector continues to perform strongly; leisure and hospitality employment in the Orlando MSA increased 21.7% from fiscal years 2010–2015. The leisure and tourism sector accounts for 21% of nonfarm employment in the MSA. Both Disney World and Universal Studios are making substantial investments in their parks including new Star Wars-themed attractions at Disney and a new hotel and water park at Universal that should further boost these favorable trends.

Osceola County experienced steep declines in jobs, housing values, and building permit activity during the last recession. Resident per capita personal income is very low compared to state and national averages. Incomes reflect the high concentration of jobs in the lower wage service sector, which accounts for more than 40% of total employment in the county.

Efforts to diversify the economy and attract higher wage jobs are evident, including the county's collaboration with nearby higher education institutions and Florida's High Tech Corridor Council to build the Florida Advanced Manufacturing Research Center, intended to promote the research and development of smart sensors. Expansion of SunRail from Orange County through major population centers in Osceola County (including Kissimmee and Poinciana) could stimulate private sector investment and also stabilize home prices in areas previously underserved by transit.

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. Discretionary taxes for operations and capital/maintenance are also levied by the district up to the statutory maximum rates of 0.748 mills and 1.5 mills, respectively. State aid made up about 69% of the district's fiscal 2015 revenues (prior to transfers in), with about 27% 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 revenue prospects 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% increase for fiscal 2017.

Related Criteria

[U.S. Tax-Supported Rating Criteria \(April 2016\)](#)

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. Fitch anticipates the district's natural pace of revenue growth to be milder (above inflation but below GDP) than what has been experienced in the past (above GDP), which is in line with Fitch's expectation for Florida's revenue growth prospects. Fitch's expectations of continued solid enrollment gains averaging about 2%–3% per year over the next several years also support this assessment.

Charter school expansion has captured much of the growth within the district over the past several years, with total charter school enrollment representing a moderately high 17% of total district enrollment in fiscal 2016, a 6% increase over the past five years. The district has historically encouraged charter schools to open in growth areas of the county, which has tempered the need to construct new schools. As a result, there has been an absence of new traditional school openings during this period of strong charter school growth. Nonetheless, traditional enrollment has continued to grow modestly each year. Fitch believes that this trend, in tandem with the construction of additional traditional schools over the next several years, bodes well for continued growth in traditional enrollment.

State revenue performance has returned to steady growth, which should benefit FEFP funding levels absent education funding policy changes. The enacted state budget for fiscal 2017 includes a roughly 1% increase in the level of per pupil funding.

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 grades K–12 education as fundamentally a state responsibility and the strong foundation of state support for education funding.

### **Expenditure Framework**

Instructional related expenditures, including salaries and benefits, comprise the bulk of the district's general fund spending.

The pace of spending growth is expected to match or marginally exceed revenue growth, reflecting enrollment-driven spending needs largely funded by related increases in state-controlled per-student funding.

Carrying costs related to debt service, pensions, and OPEB are low at about 9% of governmental spending for fiscal 2015, affording the district spending flexibility. Factors limiting 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. Additionally, the district can now meet class size requirements at the school-wide average rather than class by class. This is allowing the district to generate savings as a result of teacher allocations and related salary expenditures.

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**

The district's long-term liability burden, related to debt and the district's share of the net pension liability of the FRS, is estimated by Fitch to be low at about 8% of personal income in

fiscal 2015. The bulk of the estimated liability is overlapping county debt (about 53%), followed by the district's direct debt, which amortizes at an above average rate (59% of principal retired in 10 years).

County voters approved a one-half-cent sales tax increase in the November 2016 referendum. The tax increase takes effect Jan. 1 2017, will sunset in 20 years and is expected to generate approximately \$25 million annually. Revenue generated from the one-half-cent sales tax will be used for school facility reconstruction and improvement projects, including safety and security, technology upgrades, and other capital facilities projects. Management indicated they plan to start bonding this one-half-cent sales tax immediately to meet its reconstruction and renovation needs; preliminary plans call for approximately \$300 million of debt issuance over the next several years. Fitch expects the debt burden to remain moderately low even with the anticipated debt issuance.

The district's fiscal 2017 to fiscal 2021 capital improvement plan (CIP) totals approximately \$435 million, the bulk of which pertains to the construction of four new schools and school maintenance needs. The district plans to fund the CIP primarily through a combination of capital outlay revenue, sales taxes, and impact fees.

Pensions are provided through the well-funded state run FRS. The reported asset-to-liability ratio was 86.5% as of the July 1, 2014 valuation or an estimated 80.7% when adjusted by Fitch to assume a 7% rate of return (compared to the 7.75% assumption used by FRS).

### **Operating Performance**

Healthy fund balances, low revenue volatility, and moderate budget flexibility create a strong capacity to maintain adequate reserves, even if a moderate economic downturn were to result in revenue stress. For details, see "Scenario Analysis" on page 2.

The district built up reserves in anticipation of the end of the federal stimulus program and the expiration of a \$7 million annual critical needs tax after fiscal 2011. In order to absorb the revenue losses and maintain service levels, management instituted a controlled spend-down of the district's substantial fund balance between fiscal years 2012 and 2015. Unrestricted reserves dropped to \$44.7 million, or 10.5% of spending in fiscal 2015 from \$74.4 million, or 21% of spending in fiscal 2011, as a result of this plan. The district remains compliant with its formal unassigned reserve fund policy equal to 6% of revenues.

Preliminary unaudited estimates for fiscal 2016 indicate a slight surplus, increasing unrestricted reserves to \$45.8 million, a level of spending consistent with the prior year. Budget estimates for fiscal 2017 indicate another, slightly larger surplus.

### **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. For fiscal 2017, the district expects to use about 0.90 mills of the capital outlay millage for COPs MADS.

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## **FITCH AFFIRMS OSCEOLA COUNTY SCHOOL BOARD, FL'S IDR AT 'AA-'; UPGRADES REVS TO 'AA-'**

Fitch Ratings-New York-01 December 2016: Fitch Ratings has taken the following actions on Osceola County School Board, Florida (the district) outstanding debt:

--\$153.4 million certificates of participation, series 2007, 2009A, 2010A and 2013A affirmed at 'A+'.

In addition, Fitch has taken the following actions on Osceola County School District outstanding debt:

--\$51.7 million sales tax revenue bonds, series 2007A and 2007B upgraded to 'AA-' from 'A';  
--Issuer Default Rating (IDR) affirmed at 'AA-'

The Rating Outlook is Stable.

### **SECURITY**

The district's COPs are payable from lease payments made by the district to the trustee pursuant to a master lease purchase agreement. Lease payments are payable from legally available funds of the district on an all or none basis, subject to annual appropriation by the district.

The sales tax revenue bonds are payable by the district's 25% share of a one-cent local government sales surtax and a debt service reserve fund satisfied by a surety bond.

### **KEY RATING DRIVERS**

The 'AA-' IDR reflects the district's solid revenue growth prospects and expenditure flexibility, strong financial resilience and a low liability burden, offset by a very limited legal ability to raise revenues.

The 'A+' 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 upgrade to 'AA-' from 'A' on the sales tax bonds reflects the application of Fitch's revised criteria for U.S. state and local governments, released on April 18, 2016, and specifically the enhanced analysis of the pledged revenue stream's resilience to scenario-estimated revenue declines. The rating also considers the pledged revenue streams' solid growth prospects, and the high likelihood that the revenue stream will not be leveraged down to the 1.2x maximum annual debt service (MADS) additional bonds test (ABT), significantly enhancing overall resilience.

### **Economic Resource Base**

The school district, which is coterminous with Osceola County, is located in east central Florida within the Orlando MSA, approximately 15-20 miles from Walt Disney World Resorts and Universal Studios. The leisure and hospitality sector remains the key driver of economic activity, but continued expansion within the fields of medical research and technology could serve as the gateway to a more diverse and higher wage economy. The district has experienced significant population growth, with a 2015 population of approximately 324,000 that has grown about 21% since 2010. Enrollment for fiscal year 2016 is approximately 61,231, about a 5% increase over

the prior year. Growth is projected to range from 2% to 3% annually over the next few years. The district operates 52 school facilities.

#### Revenue Framework: 'a' factor assessment

District operations are funded through a combination of state aid and local property taxes. The district's 10-year general fund revenue growth rate (through fiscal 2015) exceeded GDP growth. Fitch believes the district's revenue growth prospects will be slightly tempered based on Fitch's expectation that Florida's revenue growth prospects will be below GDP but above inflation. Enrollment growth projections similar to past trends also support solid revenue growth expectations. The district has very limited independent ability to raise revenues.

#### Expenditure Framework: 'aa' factor assessment

The district's natural pace of spending growth is expected to be close to or marginally above that of revenue. Enrollment growth and staffing costs are the main expenditure drivers. The district has good control over employee-related expenditures, with some constraints related to class size requirements and maintenance of adequate staff compensation levels. Carrying costs associated with debt service and retiree costs are moderately low.

#### Long-Term Liability Burden: 'aaa' factor assessment

Fitch expects the district's long-term liability will remain low even with the possibility of moderate future debt issuance. The district participates in the adequately-funded Florida Retirement System (FRS).

#### Operating Performance: 'aaa' factor assessment

The district has historically maintained sound financial flexibility, despite four years of planned general fund drawdowns for operational needs. Fitch believes that the district, supported by its solid expenditure flexibility, would maintain a satisfactory reserve safety margin in a moderate economic decline scenario.

Issuing Entity Exposure: Fitch believes the ratings on the sales tax revenue bonds are 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.

### RATING SENSITIVITIES

Maintenance of Financial Flexibility: The rating is sensitive to material changes in the district's solid expenditure flexibility, low long-term liability burden, and expectations for maintenance of adequate reserve levels through a typical economic cycle.

Sales tax coverage: A material contraction of revenues or further leveraging of the revenue stream that decreases debt service coverage could pressure the rating.

### CREDIT PROFILE

Proximity to Disney World, Universal Studios and other local attractions underpin the county's tourist and service-based economy. Within the county are numerous hotels and resorts providing more affordable lodging than in neighboring Orange County for theme park guests. The tourism sector continues to perform strongly; leisure and hospitality employment in the Orlando MSA increased 21.7% from fiscal years 2010-2015. The leisure and tourism sector accounts for 21% of nonfarm employment in the MSA. Both Disney and Universal are making substantial investments in their parks including new Star Wars themed attractions at Disney and a new hotel and water park at Universal that should further boost these favorable trends.

Osceola County experienced steep declines in jobs, housing values, and building permit activity during the last recession. Resident per capita personal income is very low compared to state and



national averages. Incomes reflect the high concentration of jobs in the lower wage service sector, which accounts for more than 40% of total employment in the county.

Efforts to diversify the economy and attract higher wage jobs are evident, including the county's collaboration with nearby higher education institutions and Florida's High Tech Corridor Council to build the Florida Advanced Manufacturing Research Center (FAMRC), intended to promote the research and development of smart sensors. Expansion of SunRail from Orange County through major population centers in Osceola County (including Kissimmee and Poinciana) could stimulate private sector investment and also stabilize home prices in areas previously underserved by transit.

#### 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. Discretionary taxes for operations and capital/maintenance are also levied by the district up to the statutory maximum rates of 0.748 mills and 1.5 mills, respectively. State aid made up about 69% of the district's fiscal 2015 revenues (prior to transfers in), with about 27% 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 revenue prospects 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% increase for fiscal 2017.

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. Fitch anticipates the district's natural pace of revenue growth to be milder (above inflation but below GDP) than what has been experienced in the past (above GDP), which is in-line with Fitch's expectation for Florida's revenue growth prospects. Fitch's expectations of continued solid enrollment gains averaging about 2-3% per year over the next several years also support this assessment.

Charter school expansion has captured much of the growth within the district over the past several years, with total charter school enrollment representing a moderately high 17% of total district enrollment in fiscal 2016, a 6% increase over the past five years. The district has historically encouraged charter schools to open in growth areas of the county, which has tempered the need to construct new schools. As a result, there has been an absence of new traditional school openings during this period of strong charter school growth. Nonetheless, traditional enrollment has continued to grow modestly each year. Fitch believes that this trend, in tandem with the construction of additional traditional schools over the next several years, bodes well for continued growth in traditional enrollment.

State revenue performance has returned to steady growth, which should benefit FEFP funding levels absent education funding policy changes. The enacted state budget for fiscal 2017 includes a roughly 1% increase in the level of per pupil funding.

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

Instructional related expenditures, including salaries and benefits, comprise the bulk of the district's general fund spending.

The pace of spending growth is expected to match or marginally exceed revenue growth, reflecting enrollment-driven spending needs largely funded by related increases in state-controlled per-student funding.

Carrying costs related to debt service, pensions and OPEB are low at about 9% of governmental spending for fiscal 2015, affording the district spending flexibility. Factors limiting 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. Additionally, the district is now designated as a CHOICE district and can meet class size at the school-wide average rather than class by class. This allows the district to generate savings as a result of teacher allocations and related salary expenditures.

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

The district's long-term liability burden, related to debt and the district's share of the net pension liability of the FRS, is estimated by Fitch to be low at about 8% of personal income in fiscal 2015. The bulk of the estimated liability is overlapping county debt (about 53%), followed by the district's direct debt, which amortizes at an above average rate (59% of principal retired in 10 years).

County voters approved a half-cent sales tax increase in the November 2016 referendum. The tax increase takes effect Jan. 1 2017, will sunset in 20 years, and is expected to generate approximately \$25 million annually. Revenue generated from the half-cent sales tax will be used for school facility reconstruction and improvement projects, including safety and security, technology upgrades, and other capital facilities projects. Management indicated they plan to start bonding this half-cent sales tax immediately to meet its reconstruction and renovation needs; preliminary plans call for approximately \$300 million of debt issuance over the next several years. Fitch expects the debt burden to remain moderately low even with the anticipated debt issuance.

The district's fiscal 2017 to fiscal 2021 capital improvement plan (CIP) totals approximately \$435 million, the bulk of which pertains to the construction of four new schools and school maintenance needs. The district plans to fund the CIP primarily through a combination of capital outlay revenue, sales taxes, and impact fees.

Pensions are provided through the well-funded state run FRS. The reported asset-to-liability ratio was 86.5% as of the July 1, 2014 valuation or an estimated 80.7% when adjusted by Fitch to assume a 7% rate of return (compared to the 7.75% assumption used by FRS).

## Operating Performance

Healthy fund balances, low revenue volatility, and moderate budget flexibility create a strong capacity to maintain adequate reserves, even if a moderate economic downturn were to result in revenue stress. Available balances outside the general fund, specifically capital funds, augment flexibility.

The district built up reserves in anticipation of the end of the federal stimulus program and the expiration of a \$7 million annual critical needs tax after fiscal 2011. In order to absorb the revenue losses and maintain service levels, management instituted a controlled spend-down of the district's substantial fund balance between fiscals 2012 and 2015. Unrestricted reserves dropped to \$44.7 million or 10.5% of spending in fiscal 2015 from \$74.4 million or 21% of spending in fiscal 2011, as a result of this plan. The district remains compliant with its formal unassigned reserve fund policy equal to 6% of revenues.

Preliminary unaudited estimates for fiscal 2016 indicate a slight surplus, increasing unrestricted reserves to \$45.8 million, a level of spending consistent with the prior year. Budget estimates for fiscal 2017 indicate another, slightly larger surplus.

#### 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. For fiscal year 2017, the district expects to use about .90 mills of the capital outlay millage for COPs MADS.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

#### Applicable Criteria

U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)  
<https://www.fitchratings.com/site/re/879478>

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## RATING ACTION COMMENTARY

# Fitch Upgrades Osceola County School Board, FL's COPs to 'AA-' from 'A+'; Outlook Stable

Wed 16 Feb, 2022 - 10:41 AM ET

Fitch Ratings - New York - 16 Feb 2022: Fitch Ratings has upgraded the ratings on outstanding Osceola County School Board, Florida certificates of participation (COPs) to 'AA-' from 'A+'. Additionally, Fitch has upgraded the Osceola County School District, FL's Issuer Default Rating (IDR) to 'AA' from 'AA-'.

The Rating Outlook is Stable.

## SECURITY

The COPs are payable from lease payments made by the district to the trustee pursuant to a master lease purchase agreement. Lease payments are payable from legally available funds of the district on an all or none basis, subject to annual appropriation by the school board.

## ANALYTICAL CONCLUSION

The rating upgrade reflects the decline in the long-term liability burden to below 10% of personal income, which has been driven by debt amortization and growth in the resource base, affecting both population and per capita personal income.

The 'AA' IDR reflects the district's solid revenue growth prospects and expenditure flexibility, and strong financial resilience, offset by a very limited legal ability to raise revenues.

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.

### **Economic Resource Base**

The school district, which is coterminous with Osceola County, is located in east central Florida within the Orlando MSA, in close proximity to Walt Disney World and Universal Studios. The district has experienced significant population growth, with an estimated 2020 population of 385,315 that has grown about 43% since 2010.

### **KEY RATING DRIVERS**

#### **Revenue Framework: 'a'**

District operations are funded through a combination of state aid and local property taxes. Fitch expects continued enrollment growth and modest increases in the per pupil funding levels under the Florida Education Finance Program (FEFP) to support continued solid revenue growth above the long-term level of inflation. The district has limited independent ability to raise revenues.

#### **Expenditure Framework: 'aa'**

The district's natural pace of spending growth is expected to be close to or marginally above that of revenue, with enrollment growth and staffing costs the main expenditure drivers. The district has solid control over employee-related expenditures, with some constraints related to class size requirements and maintenance of adequate staff compensation levels. Carrying costs associated with debt service and retiree costs are affordable.

#### **Long-Term Liability Burden: 'aaa'**

Long term liabilities are low, estimated at roughly 8% of resident personal income. The district may issue new debt in the next several years, but the amount is not yet known. Fitch expects that even with the additional debt issuance, the long-term liability burden will remain low. The district participates in the well-funded Florida Retirement System.

## Operating Performance: 'aaa'

The district's financial resilience remains superior. General fund reserve levels have stabilized following several recent years of planned drawdowns. Fitch believes that the district would maintain a high level of fundamental financial flexibility in a moderate economic decline scenario.

## RATING SENSITIVITIES

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

--Continued strong enrollment growth, leading to revenue growth prospects above the rate of GDP growth.

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

--A sustained increase in the long-term liability burden to above 10% of personal income due to large debt issuance or increases in the net pension liability;

--A trend of operating deficits that leads to declines in reserve levels and a weakening of financial resilience.

## BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## CURRENT DEVELOPMENTS

The district continued a trend of maintaining strong financial resilience with a surplus in fiscal 2021, increasing reserves to over 11% of general fund expenditures. Management expects fiscal 2022 results to be balanced. The district received \$136 million in Elementary



and Secondary School Emergency Relief (ESSER III) funds through the American Rescue Plan Act.

The county has had fast population and per capita personal income growth over the last 10 years. This has led to an improvement in the long-term liability burden, reducing it to under 10% of personal income as the economic resource base has grown at a faster rate than the need for debt issuance. The county may issue new debt in the next few years, although the amount depends on the size of the renovation plans.

## CREDIT PROFILE

While the county is growing rapidly, much of the school enrollment growth has historically been captured by charter schools. Traditional enrollment growth had been modest, although it increased by over 4% in the current fiscal year as the enrollment rebounded from a slight decline in fiscal 2021.

## Criteria Variation

None.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

## REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

## ESG CONSIDERATIONS

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

## RATING ACTIONS

ENTITY / DEBT ⇅

RATING ⇅

PRIOR ⇅

Osceola County School  
District (FL)

LT IDR AA Rating Outlook Stable

AA- Rating  
Outlook  
Stable

Upgrade

Osceola County  
School District (FL)  
/Issuer Default  
Rating/1 LT

LT AA Rating Outlook Stable

Upgrade

AA- Rating  
Outlook  
Stable

Osceola County  
School District (FL)  
/Lease Obligations -  
Standard/1 LT

LT AA- Rating Outlook Stable

Upgrade

A+ Rating  
Outlook  
Stable

#### [VIEW ADDITIONAL RATING DETAILS](#)

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FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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