

RatingsDirect®

Summary:

New Rochelle School District, New York; School State Program

Primary Credit Analyst:

Timothy W Barrett, Washington D.C. (1) 212-438-6327; timothy.barrett@standardandpoors.com

Secondary Contact:

Stephen Doyle, Dallas (1) 212-438-4204; stephen.doyle@standardandpoors.com

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Credit Profile

US\$5.0 mil sch dist bnds ser 2015 due 06/01/2025

<i>Long Term Rating</i>	AA-/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating and underlying rating for credit program to New Rochelle School District, N.Y.'s series 2015 school district general obligation (GO) bonds. The outlook is stable.

The underlying rating is based on our view of the district's:

- Diverse, affluent tax base that has strong income and wealth indicators;
- Participation in the deep and diverse New York City metropolitan statistical area (MSA); and
- Low debt burden with rapid amortization of existing debt.

Offsetting factors include drawdowns in general fund reserves over the last three years, reducing the fund balance to levels we consider adequate-to-good, mitigated in part by proactive measures taken by the new management team to control spending, which led to a balanced budget for fiscal 2016 without the use of reserves.

The district's faith and credit GO pledge secures the bonds. The New York State Aid Intercept Program provides additional security. We understand that bond proceeds will be used to pay the cost of tax certiorari judgments.

New Rochelle City School District, with an estimated population of about 78,548 permanent residents, is coterminous with the City of New Rochelle and is located in the southeastern portion of Westchester County on Long Island Sound, approximately 15 miles from midtown Manhattan. The affluent district is a mix of both urban and suburban residential housing and is very diverse, with the top 10 taxpayers accounting for less than 6.0% of assessed value (AV). The county's unemployment rate averaged 5.1% in 2014, which was below both state and national rates. In our opinion, income and wealth levels in the district are very strong, with median household effective buying income (EBI) at 123% of the national average, and per capita EBI at 153%. The district's AV, which has increased by 7.1% since fiscal 2011, currently stands at \$301.4 million, relating to an estimated market value of \$10.3 billion, or nearly \$131,000 on a per capita basis, a level we consider very strong.

We view the district's financial position as adequate, despite drawdowns in each of the last three fiscal years that have reduced the general fund balance reserves to levels we consider adequate-to-good. However, it is our understanding that the new administrative team, which has implemented a number of cost-saving measures within the last year, anticipates building up reserves over the next couple of fiscal years. It is our understanding that favorable terms,

achieved by the district in its collective bargaining negotiations with its labor unions, are included in those measures. As such, the new management team balanced the budget for fiscal 2016 at \$250.1 million without appropriating any reserves, compared with appropriations over the last three years, which ranged from \$3.8 million to \$6.0 million.

The fiscal 2015 budget included an appropriation of \$3.8 million. Although management indicates it does not expect to draw down reserves by the full appropriation, given cost-saving measures implemented within the last year, including expenditure freezes for discretionary items and energy cost savings, it is unknown at this time how much management will replenish the appropriation. Although unexpected, if the district were to draw down reserves by the full \$3.8 million, the ending general fund reserves would remain adequate, in our view, at an estimated \$6.2 million, or 2.6% of expenditures.

The district ended fiscal 2014 with a \$3.1 million drawdown, which was well below the \$4.7 million appropriation for the year. It ended the year with a total general fund balance of \$10.1 million, or 4.2% of expenditures, and an available fund balance of \$9.8 million, or 4.1% of expenditures, a level we consider good. The district's primary general fund revenues consist of property taxes (72%) and state revenues (13%).

Standard & Poor's considers New Rochelle City School District's management practices as "standard" under its Financial Management Assessment (FMA) methodology. An FMA of standard indicates our view that the finance department maintains adequate policies in some, but not all, key areas. Highlights include the district's monthly budget reporting and regularly updated facilities plan. The district does not have formalized long-term financial projections, nor does it maintain formal debt or fund balance policies, but it does comply with state statutes. In addition, the district follows state statutes for its investments.

In our view, the district's overall debt burden after deducting for building aid is low, at \$2,350 per capita or 1.8% of market value. Debt service is low at less than 4% of 2014 governmental expenditures and debt amortization is rapid, with nearly 93% of debt retired within 10 years.

The district participates in two state retirement systems; the New York State Employees' Retirement System and the New York Teachers' Retirement System. Laws require the district to make full annual required contribution payments. In fiscal 2014, the required contribution totaled \$22.0 million, or about 8.5% of governmental expenditures. In addition, the district provides other postemployment benefits (OPEB) to eligible employees. The annual OPEB cost in fiscal 2014 was \$7.1 million, and the district's contribution was approximately 70% of that amount, equal to about 1.9% of governmental expenditures. As of July 1, 2013, the district's unfunded OPEB liability was \$147.5 million.

Outlook

The stable outlook on the program rating reflects the strength of the New York State intercept program.

The stable outlook on the underlying rating for credit program reflects Standard & Poor's expectation that the district's financial performance will improve given expenditure reductions implemented by the district's new management team. As such, we expect the district will maintain balanced financial operations as well as at least adequate general fund reserve levels. In addition, the district's debt levels are expected to remain low, as officials indicate that the district has

no significant capital needs at this time. As such, we do not expect the rating to change within the outlook's two-year time horizon. If the district's financial performance improves and reserves are maintained at stronger levels, we could raise the rating. On the other hand if the district continues to draw down reserves to levels we consider low, the rating could be pressured.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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