MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to New Rochelle School District's (NY) $2M GO, 2014, Outlook changed to negative

Global Credit Research - 13 Jan 2014

Affirms $60M long term G.O. bonds outstanding

NEW ROCHELLE CITY SCHOOL DISTRICT, NY
Public K-12 School Districts
NY

Moody's Rating

ISSUE	RATING
School District (Serial) Bonds, 2014	Aa2
Sale Amount $1,989,526	
Expected Sale Date 01/16/14	
Rating Description General Obligation	

Moody's Outlook NEG

Opinion

NEW YORK, January 13, 2014 --Moody's Investors Service has assigned a Aa2 rating to New Rochelle City School District's (NY) $2 million School District (Serial) Bonds, 2014. Concurrently, Moody's has affirmed the Aa2 rating on the district's $60.2 million in outstanding long term parity debt. The outlook has changed to negative. The bonds are secured by a unlimited General Obligation pledge. Proceeds will be used to permanently finance maturing Bond Anticipation Notes (BANs).

SUMMARY RATINGS RATIONALE

The Aa2 rating incorporates the school district's large tax base with strong residential wealth levels, ongoing tax appeals, a declining financial position and a low debt burden with manageable pension liability.

The negative outlook reflects the continued tax appeals and our belief that the district will be challenged to maintain adequate reserve levels over the near term.

STRENGTHS

-Large tax base with strong socioeconomic wealth indicators

-Low debt burden

CHALLENGES

-Ongoing tax appeals

-Declining financial position

-Reduced state aid

DETAILED CREDIT DISCUSSION

DECLINING FINANCIAL POSITION DRIVEN BY ONGOING TAX APPEALS

Despite conservative budgeting, New Rochelle City School District's financial position has narrowed due to reduced state aid and planned reserve draws related to sizable tax appeals. From fiscal 2005 through 2012, the district's reserve levels have remained within a range between 7-10% of revenues. General Fund reserves dropped below that range in fiscal 2013 and are expected to decline to a narrow 4% of revenues in fiscal 2014.

The primary reason for recent reductions in financial flexibility are ongoing tax certiorari claims that have resulted from a 30% reduction in the district's full values from 2008 through 2014. To manage through the associated budgetary pressure, the district borrowed $5 million in fiscal 2010 to fund its shrinking tax certiorari reserve. The reserve, held within the General Fund, reported a $6.6 million balance designated to tax appeals in fiscal 2010 and is expected to end fiscal 2014 with $600,000. Looking forward toward fiscal 2015, district officials anticipate replenishing the tax appeal reserve with another borrowing in the range of $4 to $5 million and also anticipates that their exposure to future tax appeals will continue to decline.

Fiscal 2013 (ending 6/30) ended with a $2.1 million planned draw down of reserves to fund tax appeals, bringing total ending General Fund balance down to $13.2 million or 5.8% of revenue. While total expenditures were budgeted conservatively, total revenues slightly underperformed due to negative variance in STAR revenues and state aid. The district is primarily supported by local property taxes which comprised 83% of revenues in fiscal 2013 and were collected over 98% on a current basis.

The fiscal 2014 budget includes a 3.6% levy increase and a $4.7 million appropriation of fund balance reserves to offset 2% expenditure growth. Additionally, $3.5 million of tax appeals are projected to be paid out, contributing to management's forecast of a $3.2 million fund balance reduction by year-end, bringing total fund balance reserves to an estimated $10 million or a narrow 4.4% of revenues. The ability to sustain structural balance and maintain adequate financial flexibility over the near term will be a significant factors during future rating reviews.

LARGE SUBURBAN TAX BASE WITH PROXIMITY TO NEW YORK CITY EXPERIENCING FULL VALUE DECLINES

Despite recent full value reductions, the district is expected to maintain a relatively stable economic base over the intermediate term, given its maturity and proximity to Manhattan approximately 15 miles away, in the southern portion of Westchester County (G.O. rated Aa1/stable outlook). We expect declines in the district's tax base to moderate over the near term as a result of recent reductions that align with regional trends. The total assessed value for the district has declined at an average annual rate of -1.8% over the last five years through 2014 due to ongoing tax appeal settlements. Full valuation has decreased by a cumulative 30% over the five years through 2014. Declines in recent years have moderated. Full value per capita is substantial at $117,621, and wealth levels are well above state and national medians with median family income representing 145% of the national average.

LOW DEBT BURDEN, MANAGEABLE PENSION LIABILITY

The district's direct debt burden (0.7% of full value) is expected to remain manageable, given above rapid amortization of principal (94.5% in ten years) and limited borrowing plans. On an overall basis, including debt issued by the City of New Rochelle (G.O. rated Aa3/Negative) and the district's pro-rata share of debt issued by Westchester County, the debt burden is 2.7%, and falls slightly to 2.6% when adjusted for state building aid. Debt service accounted for a lower than average 4.3% of operating expenditures in fiscal 2013 and is not expected to materially increase in future years. Management is currently planning an estimated $4 million borrowing for tax certioraris in fiscal 2015. The district has no variable rate debt obligations or derivative agreements.

The district participates in the New York State and Local Employees Retirement System and the New York State Teachers Retirement System, two multi-employer, defined benefit retirement plans sponsored by the State of New York (GO rated Aa2/positive). The district's combined annual required contribution (ARC) for the plans was $16.7 million in fiscal 2013, or 7.4% of General Fund expenditures. The district's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $222 million, or approximately a moderate 1.03 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans.

OUTLOOK

The negative outlook reflects the continued tax appeals and our belief that the district will be challenged to maintain adequate reserve levels over the near term.

What could make the rating change - UP

- Increased financial reserves

- Improvement in the tax base and/or demographic profile

What could make the rating change - DOWN

- Protracted structural budget imbalance

- Continued depletion of General Fund balance

- Continued tax appeals and/or deterioration of the district's tax base

KEY STATISTICS:

2010 Population: 77,062 (+6.8% from 2000)

2014 Full valuation: $9.06 billion

Full value per capita: $117,621

Median Family Income as % of State and U.S.: 140.7% and 145.3%

Direct Debt Burden: 0.7%

Overall Debt Burden (after state school building aid): 2.5% (2.3%)

Payout of Principal (10 years): 94.5%

Fiscal 2013 General Fund Balance: $13.2 million (5.8% of General Fund revenues)

Post-sale parity debt outstanding: $60.2 million

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Analysts

Vito Galluccio
Lead Analyst
Public Finance Group
Moody's Investors Service

Tiphany J. Lee
Backup Analyst
Public Finance Group
Moody's Investors Service

Robert Weber
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

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