New Issue: **MOODY'S ASSIGNS Aa2 RATING TO NEW ROCHELLE CITY SCHOOL DISTRICT'S (NY) $18.75 MILLION SCHOOL DISTRICT REFUNDING (SERIAL) BONDS, 2012**

Global Credit Research - 01 May 2012

AFFIRMATION OF Aa2 LONG TERM G.O. RATING AFFECTS $74.4 MILLION OF OUTSTANDING DEBT, POST SALE

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

Moody's Rating

ISSUE	RATING
School District Refunding (Serial) Bonds, 2012	Aa2

Sale Amount	$18,750,000
Expected Sale Date	05/09/12
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, May 01, 2012 --Moody's Investors Service has assigned a Aa2 rating to New Rochelle City School District's (NY) $18.75 million School District Refunding (Serial) Bonds, 2012. Concurrently, Moody's has affirmed the Aa2 rating on the district's $74.4 million in outstanding parity debt. The bonds are secured by the district's unlimited ad valorem property tax pledge and will be used to refund the currently outstanding 2003 Series A bonds for an estimated net present value savings of 11% without extending original maturity.

SUMMARY RATINGS RATIONALE

The Aa2 rating incorporates the school district's large tax base with favorable wealth levels, satisfactory financial position and manageable debt burden.

Effective January 1, 2012, all local governments in New York State are subject to a property tax cap which limits levy increases to 2% or the rate of inflation, whichever is lower. While school district debt has been exempted from the cap, debt has not been exempted for all other local governments. Moody's will continue to treat school district general obligation debt issued in New York as an unlimited tax pledge and continue to research the impact of the property tax cap on debt issued by nonschool districts. For more information regarding the property tax cap please reference the Special Comment "New York State's Property Tax Cap will Further Pressure Local Government Finances; School District's Most Impacted" released July 5, 2011

STRENGTHS

-Large tax base with strong socioeconomic wealth indicators

-Low debt burden

-Adequate financial reserves

CHALLENGES

-Ongoing tax appeals

-Declining tax base

-Exposure to declining state aid

DETAILED CREDIT DISCUSSION

ADEQUATE FINANCIAL POSITION DRIVEN BY CONSERVATIVE BUDGETING OF EXPENDITURES

Despite recent draw-downs driven by state aid cuts and tax appeals, New Rochelle City School District's financial position is expected to remain stable given conservative budgeting of General Fund expenditures. Since fiscal 2007, the district's reserve levels have fluctuated within a narrow range between 7-10% of revenues. Fiscal 2010 financial results yielded a moderate $590,000 surplus as the district was able to find expenditure savings ($12.4 million variance) to completely offset the original $4.3 million in appropriated fund balance. A large portion of the expenditure savings came from reduction in staff, (40 positions). The district has managed through a $2.9 million state aid cut in fiscal 2010 due to the receipt of $4.5 million in ARRA funds.

Notably, the district has experienced higher tax certiorari claims as a result of ongoing softness in the real estate market, resulting in draw downs on funds designated within the General Fund for this purpose, as it does not budget for this expense. To manage through the short term budgetary pressure, the district borrowed $5 million in fiscal 2010 to replenish a shrinking tax certiorari reserve within the General Fund ($6.1 million in fiscal 2009, $6.7 million fiscal 2010, $4 million in 2011). The district has used $2.7 million of this reserve in fiscal 2011 and plans to draw an additional $2.5 million in fiscal 2012, resulting in an estimated $1.4 million in the reserve at the end of fiscal 2012. Going forward, the New Rochelle School District expects that their exposure to future tax appeals will stabilize or decline and does not anticipate additional borrowings for future tax appeals. Moody's believes that future appeals which reduce the size of the taxable base and deteriorate liquidity or add to the district's debt burden are negative credit factors that could result in negative pressures in future reviews.

Fiscal 2011 (ending 6/30) included a 2.2% levy increase and an increased $6.6 million fund balance appropriation. By year end, the district generated a $3.4 million deficit, largely driven by a planned $2.7 million draw-down of the tax appeal reserves, bringing total ending General Fund balance down to $17.9 million or 8.3% of revenue. The district is primarily supported by local property taxes which comprised approximately 82% of revenues in fiscal 2011.

The fiscal 2012 budget includes a 2.7% levy increase to offset similar expenditure growth and a $6 million appropriation of fund balance reserves. State aid is expected to be reduced by $6.4 million, only partially offset by $1.8 million JobsEd funds. Additionally, tax appeals ($2.5 million) are expected to be paid out, contributing to management's projection of a $3.7 million draw-down of fund balance reserves by year-end, bringing total fund balance reserves to $14.2 million or 6.6% of revenues. New Rochelle City School District's ability to sustain structural balance and grow reserves in step with budgetary expansion over the near term will be a significant factor in future rating reviews.

LARGE SUBURBAN TAX BASE WITH ONGOING TAX APPEALS

The district is expected to maintain a stable economic base over the intermediate term, given its central location approximately 15 miles from midtown Manhattan, in the southern portion of Westchester County (G.O. rated Aaa/negative outlook). We expect growth in the district's tax base to slow over the near term as a result of the national and regional softening of real estate markets and the continuation of a challenging economic outlook. The total assessed value for the district has declined at an average annual rate of -1.8% over the last five years due to ongoing tax appeal settlements. Full valuation has decreased by a cumulative 25% over the four years through 2012, including -10.8% and -9.7% in 2011 and 2012, which are consistent with declines throughout the region. Full value per capita is substantial at $123,486, and wealth levels are well above state and national medians with median family income representing 145% of the national average.

LOW DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

The district's direct debt burden (0.7% of full value) is expected to remain manageable, given above average amortization of principal (87% in ten years) and no additional 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 2.5%, and falls slightly to 2.3% when adjusted for state building aid. Management is currently planning an estimated $6.4 million lease borrowing in fiscal 2013, which will be partially offset by state funds (30% of cost) with the remainder paid by energy cost savings. The district has no variable rate debt obligations or derivative agreements.

What could make the rating change - UP

- Increased financial reserves in line with higher rating categories

- Maintaining the tax base and demographic profile at levels consistent with comparable rating categories

What could make the rating change - DOWN

- Protracted structural budget imbalance

- Depletion of General Fund balance

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

KEY STATISTICS:

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

2012 Full valuation: $9.5 billion

Full value per capita: $123,486

1999 Per Capita Income (as % of State and U.S.): $31,956 (136.6% and 148.0%)

1999 Median Family Income (as % of State and U.S.): $72,723 (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): 87.4%

Fiscal 2010 General Fund Balance: $21.3 million (9.6% of General Fund revenues)

Fiscal 2011 General Fund Balance: $17.9 million (8.3% of General Fund revenues)

Post-sale parity debt outstanding: $74.4 million

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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