



## New Issue: **Moody's assigns Aaa rating to the Rye City School District's (NY) \$14.1 million G.O. refunding bonds, 2012**

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Global Credit Research - 23 Jul 2012

### **Affirmation of Aaa rating affects \$27 million in rated parity debt, including current issue**

RYE CITY SCHOOL DISTRICT, NY  
Public K-12 School Districts  
NY

#### **Moody's Rating**

<b>ISSUE</b>	<b>RATING</b>
School District (Refunding) Serial Bonds, 2012	Aaa
<b>Sale Amount</b>	\$14,140,000
<b>Expected Sale Date</b>	07/24/12
<b>Rating Description</b>	General Obligation

#### **Moody's Outlook** NOO

#### **Opinion**

NEW YORK, July 23, 2012 --Moody's Investors Service has assigned a Aaa rating to the Rye City School District's (NY) \$14.1 million School District (Refunding) Serial Bonds, 2012. Concurrently, Moody's has affirmed the Aaa rating on \$27 million of parity general obligation debt. The bonds are secured by the district's general obligation unlimited tax pledge. Bond proceeds will be used to refund in part, Series 2003 dated June 26, 2003 and Series 2005 dated May 10, 2005 for an estimated net present value savings of 7.8% of refunded bonds with no extension of maturity.

#### **SUMMARY RATING RATIONALE**

The Aaa rating reflects the district's healthy financial position with ample reserves, sizeable and affluent tax base and favorable debt profile.

#### **STRENGTHS**

- Sizeable and affluent tax base
- Healthy financial position with ample reserves

#### **CHALLENGES**

- Addressing rising costs of employee benefits
- Maintaining structurally balanced operations given revenue constraints under the state tax cap

#### **DETAILED CREDIT DISCUSSION**

#### **SIZEABLE AND AFFLUENT RESIDENTIAL TAX BASE**

The district's \$5.7 billion tax base is expected to remain stable, given strong socio-economic indicators as well as close proximity to employment opportunities throughout the New York City (G.O. rated Aa2/stable) metropolitan area. The district serves the city of Rye (G.O. rated Aaa) and is located in Westchester County (G.O. rated Aaa/negative). The assessed value declined 0.8% in 2011 bringing the five-year average annual growth to a limited 0.1%. However, despite the limited growth, which is expected to continue given the district's built out nature, full value per capita

remains strong at \$391,136 reflective of the high-end home values throughout the district. In addition, the wealth levels for the district are well-above average with both per capita and median family income greater than 300% of both the state and US medians.

#### HEALTHY FINANCIAL POSITION WITH AMPLE RESERVES

Moody's expects the district to maintain a healthy financial position despite limited use of reserves in the near term for one-time capital projects. Over the past five years (2007-2011) the district has steadily increased its reserve levels by \$8.3 million, more than doubling the \$7.5 million fund balance in 2007. Fiscal 2011 ended with a total fund balance of \$15.8 million (22.5% of revenues) and marked the district's fourth consecutive year with an operating surplus. The 2011 operating surplus of \$3.3 million was larger than prior years and is attributed to the district receiving a \$1.03 million tax settlement payment from The Miriam Osborn Home due to its recent conversion to a taxable property from tax-exempt. Along with this one-time revenue payment, the district had a positive revenue variance of \$400,000, received \$120,000 in ARRA funding, and due to a labor contract settlement had over-budgeted salary and benefit expenditures by \$1.5 million. The district also adjusted the restricted fund balance by increasing the retirement contributions balance to \$4.7 million and lowering the tax certiorari balance to \$5.8 million due to a reduction in tax liability exposure. Also, the available fund balance increased to \$5.2 million (7.4% of revenues).

The fiscal 2012 budget increase of 3.14% was balanced with a tax levy increase of 1.78% and a fund balance appropriation of \$1.96 million. The fund balance appropriation is an increase from the \$660,000 appropriated in 2011 and is attributed to management's decision to use \$1.3 million of reserves for one-time capital projects while the balance continues to offset the tax levy. The district estimates that fiscal 2012 year-end results will reflect a positive variance of \$800,000 in budget to actual, resulting in a decline of \$1.1 million in General Fund balance. The approved 2013 budget increase of 2.33% is balanced with a tax levy increase of 1.94% and a fund balance appropriation of \$2.5 million, including \$1.84 million for one-time capital projects. Management states that 2013 will be the final year of additional use of reserves towards capital projects and that future budgets will continue to include an appropriation to help offset rises in the tax levy. The district derives the majority of its revenue from property tax and other tax items (90.5% of 2011 revenues) and taxpayer support of the district remains strong based on the 2013 budget approval rate of 74%. Management for the district is strong and despite the planned use of reserves in 2012 and 2013, the fund balance levels are expected to remain sufficient to support the stable financial position.

The district contributes to the New York State Employees' Retirement System and New York State Teachers' Retirement System, both of which are multi-employer cost-sharing defined benefit plans. The district is required to fully fund its Annual Required Contribution (ARC), which was a combined \$3.6 million in 2011, representing 5.4% of expenditures. The district contributes to its OPEB liability on a pay-as-you-go basis and contributed 43% of its annual OPEB costs in 2011, representing \$2 million. The total Unfunded Actuarial Accrued Liability (UAAL) for OPEB is \$55.1 million as of July 1, 2010. The district's total fixed costs for 2011, including pension, OPEB and debt service represented \$9.7 million or 14.4% of expenditures.

#### FAVORABLE DEBT BURDEN WITH AVERAGE PAYOUT

The district's direct debt burden of 0.5% of full value is expected to remain favorable given the average principal amortization of 85% within ten years and manageable future borrowing plans. In addition, the overall debt burden increases to manageable 1.2% when factoring in the overlapping debt of the city and county. The district has \$16.3 million in authorized but unissued debt for an expansion to the Rye High School that is expected to be financed in the spring of 2013. Debt service for 2011 represented 5.9% of expenditures and is entirely composed of fixed rate bonds.

#### WHAT COULD MAKE THE RATING GO DOWN

- Prolonged structural budget imbalance
- Significant reduction of General Fund balance
- Deterioration of the district's tax base and demographic profile

#### KEY FACTS:

Equalized Valuation 2012: \$5.7 billion

2010 Population (US Census): 14,677

Average Annual Increase in Assessed Valuation (2008-2012): 0.1%

2012 Full Value per Capita: \$391,136

2010 American Community Survey Per Capita Income: \$86,448 (279% of state, 316% of US median)

2010 American Community Survey Median Family Income: \$204,286 (303% of state, 324% of US median)

FY11 Total Fund Balance: \$15.8 million (22.5% of general fund revenues)

FY11 Available Fund Balance: \$5.2 million (7.4% of general fund revenues)

Direct Debt as % of Full Value: 0.5%

Overall Direct Debt as % of Full Value: 1.2%

Amortization of Principal (10 years): 85%

Post-sale General Obligation Debt Outstanding: \$27 million

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](http://www.moodys.com) for a copy of this methodology.

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