

CREDIT OPINION

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 Rate this Research

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Regional S.D. 14 (Woodbury & Bethlehem), CT

Update to credit analysis

Summary

Regional School District 14, CT (Aa3) benefits from a moderately-sized, stable tax base with a strong resident income and wealth profile. While the district's reserve and liquidity position is limited due in part to statutory limits on reserves, sound financial positions of the two member towns, Woodbury (Aa2) and Bethlehem, provide additional security for the district. Lastly, while the district's fixed costs are currently manageable, debt service expenditures will rise in the near term due to the issuance of the 2018 GO bonds and future debt plans.

On June 20, we assigned a Aa3 rating to the district's \$12 million General Obligation Bonds, Issue of 2018 and a MIG 1 rating to \$18 million of General Obligation Bond Anticipation Notes.

Credit strengths

- » Stable tax base with strong wealth and income profile
- » Minimal exposure to state revenues
- » Currently low pension and OPEB required contributions

Credit challenges

- » Sizable amount of notes outstanding relative to available liquidity
- » Limited financial position due in part to statutory limit on unrestricted reserves
- » Declining enrollment
- » Moderate debt burden expected to increase

Rating outlook

Moody's does not generally assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Tax base growth
- » Improvement of wealth and income profile

Factors that could lead to a downgrade

- » Material increase in fixed costs
- » Narrowing of financial position
- » Deterioration of wealth and income profile
- » Contraction of taxable base

Key indicators

Exhibit 1

Regional School District 14 (Woodbury & Bethlehem)	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$2,139,135	\$1,979,836	\$2,023,393	\$2,130,842	\$2,066,800
Population	13,519	13,495	13,402	13,314	13,215
Full Value Per Capita	\$158,232	\$146,709	\$150,977	\$160,045	\$156,398
Median Family Income (% of USMedian)	150.8%	159.0%	161.1%	156.7%	156.7%
Finances					
Operating Revenue (\$000)	\$33,497	\$33,785	\$36,470	\$35,638	\$36,559
Fund Balance (\$000)	\$38	\$221	\$134	\$472	\$1,405
Cash Balance (\$000)	\$326	\$474	\$828	\$1,614	\$2,919
Fund Balance as a % of Revenues	0.1%	0.7%	0.4%	1.3%	3.8%
Cash Balance as a % of Revenues	1.0%	1.4%	2.3%	4.5%	8.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$2,925	\$1,940	\$1,377	\$885	\$603
3-Year Average of Moody's ANPL (\$000)	\$2,064	\$2,392	\$2,811	\$2,817	\$2,955
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.0%	0.0%
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.0x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.1x	0.1x	0.1x	0.1x	0.1x

Source: Moody's Investors Service

Profile

The district is made up of the towns of Woodbury (Aa2) and Bethlehem in northwest Connecticut. It provides kindergarten through 12th grade education to approximately 1,700 students.

Detailed credit considerations

Economy and Tax Base: Modest Tax Base in Northwestern Connecticut

The district is located approximately 12 miles west of Waterbury in northwestern Connecticut. RSD 14's \$2 billion tax base is below the national median of similarly rated districts and remains challenged to grow in the aftermath of the Great Recession, with full valuation declining at a compound rate of 1% annually over the past five years. The district is made up of the towns of Woodbury (Aa2) and Bethlehem.

The wealth and income profile of district residents is strong. Median family income for the district is 150.1% and 111.6% of the US and state medians, respectively. Full value per capita is a strong \$153,635 and the district's median home value is an above average 182.5% of the national median. As of August 2017, Litchfield County's unemployment rate of 4.7% was in line with the state rate of 4% and above the national rate of 4.1%.

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Long-term the district will be challenged by an aging population trend. The 2016 American Community Survey (ACS) estimates the district's median age to be 47.8 years, significantly older than reflected in the district's 1990 census results, when the median age was 37.5 years.

Financial Operations and Reserves: Narrow but Balanced Financial Operations; Limited Liquidity Position Relative to Outstanding Short-term Notes

Despite reporting operating surpluses in four of the past five years, the district's reserve position is narrow and will likely remain at or near current levels. State statute limits the accumulation by regional school districts of undesignated reserves and surpluses, which must be remitted back to member towns. Although the district's financial position will likely remain stable given that it provides an essential service to member towns of high credit quality, the narrow financial position limits financial flexibility to a degree that is atypical of like rated local government credits.

In fiscal 2017, the district ended the year with a \$612,000 operating surplus and the district's available operating fund balance was a narrow 4.9% of revenues, well below the national median of 15.8% for Aa3 rated school districts.

The district expects fiscal 2018 to end with a modest surplus (non-GAAP basis) due to expenditures under budget. The approved fiscal 2019 budget represents a 1.9% increase over the prior year due to increased salaries and debt service.

The district's primary source of revenues is member town assessments, which accounted for 76% of total revenues in fiscal 2017. Assessment proportionment is based on enrollment, with Woodbury accounting for 76% and Bethlehem for 24%. The stability and credit quality of the district's member towns are core considerations in the rating.

RSD 14 does not have any direct taxing authority and member towns can levy property taxes without limit to meet assessments owed to the district. At the end of fiscal 2017, both member towns maintained fund balance in excess of 16% of revenues.

LIQUIDITY

The district's net cash as of the close of fiscal 2017 totaled \$9.6 million or 24.3% of operating revenues; however, this includes approximately \$6.1 million in grant revenues due to the capital project fund for renovations at the district's high school. Net of this restricted cash, the district's available general fund cash totals \$3.5 million or 8.9% of operating revenues. Positively, the district maintains a modest amount of additional available liquidity, \$1.3 million, in its capital projects fund. This amount provides a modest additional financial resource.

Member towns' net cash totaled \$11.9 million representing 26.9% of the towns' collective operating revenues.

Debt, Pensions and Legal Covenants: Future Debt Issuance Plans; Moderate BAN Takeout Management

The district's debt burden will grow to still manageable levels in the coming years as it issues additional bonds to finance a renovation of its high school. Following the issuance of the \$12 million 2018 bonds and the \$18 million BANs, the district's direct debt burden will be an average 1.5% of full value. The district anticipates issuing long-term bonds in 2019 and 2020 to take out the notes at the time of maturity and fund the remainder of the project, respectively. The district has \$33.8 million in authorized but unissued debt at this time.

DEBT STRUCTURE

All of the district's debt is fixed rate. The 2018 BANs are due July 2019 and the district plans to issue long term bonds to take them out two weeks prior to maturity. In the event of market disruption or failure to receive bids, the district would work with local banks to establish a direct placement to take out the BANs.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other debt-related derivative transactions.

PENSIONS AND OPEB

The district maintains a single employer defined benefit plan and also participates in the multi-employer cost-sharing Teachers Retirement System (TRS) plan administered by the state. Most teachers participate in the state administered plan, for which the district is not legally responsible for any contributions. In fiscal 2017, the state made a \$5.5 million contribution on behalf of the district. For the locally administered single-employer plan, the district has met its actuarially required contribution (\$315,000 in fiscal 2017) in each of the past four years.

The district's three year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$3 million, or a minimal 0.1 times operating revenues. When including the city's share of the TRS ANPL to the adjusted liabilities of the city managed plans, the ANPL increases to \$41 million, representing a still manageable 2% of full value and 1.1 times revenues.

Moody's ANPL reflects certain adjustments we make 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 administered plan in proportion to its contributions to the plan.

In fiscal 2017, the district made a \$127,000 OPEB contribution. Total fixed costs (consisting of OPEB contributions and required pension payments) are low at 1.1% of fiscal 2017 revenues.

Management and Governance: Declining Enrollment a Credit Challenge; Strong Institutional Framework

District management's record of matching recurring revenues with recurring expenditures resulting in break-even operations in each of the past five years demonstrates strong budgetary controls. Moving forward the district will be challenged by a trend of declining enrollment, which has declined from 2,100 in fiscal 2011 to 1,718 in fiscal 2018. The district does attract a significant number of out of district students (approximately 235 in 2018) for which the district receives tuition revenue.

Either of the member towns may legally withdraw from the district, but if a town does withdraw, the departing town remains responsible for its pro-rata share of indebtedness. Also, in the event of a debt service deficiency, state statute requires the member towns to pay all debt service (plus a penalty) as soon as it is available either through adjusting their tax rates or with funds on hand.

Connecticut Regional School Districts have an Institutional Framework score of Aa, which is high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Member town assessments are the major revenue source and the member towns derive most of their revenues from property taxes which are not subject to any caps. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Connecticut has public sector unions and additional constraints, which limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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