

## CREDIT OPINION

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 Rate this Research

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# Regional School District 12 (Bridgewater, Roxbury, Washington), CT

Update following upgrade to Aa1

## Summary

[Regional School District 12](#), Connecticut (Aa1 GO; MIG 1 short-term) benefits from a moderate tax base with a very strong resident income and wealth profile. The district services member towns Bridgewater, Roxbury and Washington, all of which maintain very strong financial profiles and provide additional security for the district. The district's reserve and liquidity positions are limited due largely to statutory limits on reserves, but the district maintains additional resources outside of its general fund. The district's debt and pension burdens are low.

On March 15, 2019 we assigned an Aa1 GOULT rating and MIG 1 rating to the district's bonds and BANS. Concurrently, we upgraded the district's GOULT-equivalent issuer rating to Aa1.

## Credit strengths

- » Stable district operations supported by effective budgetary management
- » Additional liquidity outside of general fund
- » Strong wealth and income profile of district residents
- » Minimal reliance on state aid

## Credit challenges

- » Limited financial position due in part to statutory limit on unrestricted reserves
- » Declining enrollment

## Rating outlook

Outlooks are not typically assigned to local government credit with this amount of debt outstanding.

## Factors that could lead to an upgrade (long-term rating)

- » Material expansion of taxable base
- » Significant improvement of resident wealth and income indicators

## Factors that could lead to a downgrade

- » Material addition to debt profile (long-term)

- » Deterioration of financial position (long-term)
- » Erosion of socioeconomic indicators (long-term)
- » Downgrade of the district's long-term rating (short-term)

## Key indicators

Exhibit 1

Regional School District 12 (Bridgewater, Roxbury, Washingto	2014	2015	2016	2017	2018
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$3,041,791	\$3,035,244	\$3,188,142	\$3,338,996	\$3,120,604
Population	7,549	7,467	7,425	7,401	7,401
Full Value Per Capita	\$402,940	\$406,488	\$429,379	\$451,155	\$421,646
Median Family Income (% of USMedian)	153.9%	158.0%	163.1%	163.5%	163.5%
<b>Finances</b>					
Operating Revenue (\$000)	\$23,515	\$23,345	\$23,515	\$24,489	\$25,288
Fund Balance (\$000)	\$727	\$1,168	\$1,107	\$659	\$371
Cash Balance (\$000)	\$1,053	\$2,319	\$2,206	\$1,599	\$1,230
Fund Balance as a % of Revenues	3.1%	5.0%	4.7%	2.7%	1.5%
Cash Balance as a % of Revenues	4.5%	9.9%	9.4%	6.5%	4.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$2,639	\$1,905	\$1,350	\$900	\$450
3-Year Average of Moody's ANPL (\$000)	\$765	\$986	\$1,914	\$2,313	\$2,670
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.0%	0.0%	0.0%
Net Direct Debt / Operating Revenues (x)	0.1x	0.1x	0.1x	0.0x	0.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.1x	0.1x	0.1x

Including the Series 2019 Bond and BAN issuance the district has 12.3M in direct debt for 0.4% of full value

Source: Moody's Investors Service and audited financial statement

## Profile

Regional School District 12 is located in northwestern [Connecticut](#) (A1 stable) comprised of member towns Bridgewater, Roxbury and Washington. The district provides pre-kindergarten through 12th grade education to approximately 672 students. As of fiscal year 2018 each member town's proportion of enrollment and share of the district's budget was as follows: Bridgewater, 17.9%; Roxbury, 36.2%; Washington, 45.8%.

## Detailed credit considerations

### Economy and tax base: Moderate tax base with affluent local resident profile

The district is located approximately 20 miles west of [Waterbury](#) (A2 stable) in northwestern Connecticut. RSD 12's fiscal 2018 \$3.1 billion fully valued tax base is moderately-sized and future development will likely be limited given the district's largely rural nature and local commitment to preservation of open space. Overall, the district's full value has remained largely flat, with a five-year average annual growth rate of 0.6%.

The wealth and income profile of district residents is particularly strong. Median family income for the district is 164% of the US. Full value per capita is a very strong \$421,646 and the district's median home value is 259% of the national median and 186% of the state

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median. As of December 2018, Litchfield County's unemployment rate of 3.1% was below the state rate of 3.2% and the national rate of 3.7%.

Long-term, the district will be challenged by an aging population trend. The 2017 American Community Survey (ACS) estimates the district's median age to be 53.2 years, significantly older than reflected in the district's 1990 census results, when the median age was 41 years.

### **Financial Operations and Reserves: Narrow but balanced operations constrained by state statute; sufficient liquidity relative to outstanding short-term notes**

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. The lone exception is an allowable, maximum transfer of up to 1% of budget to fund a capital reserve fund. 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 typical of like rated local government credits.

In fiscal 2018, the district ended the year with a \$920,000 general fund operating surplus, its fifth consecutive, but the district then transferred \$908,000 into its debt service and capital reserve fund, a practice typical for the district. Ultimately, the district's general fund balance reflected break-even operations and an ending fund balance of \$380,000 or a slim 1.5% of revenues. The district also maintains a modest amount of additional financial resources in its debt service and capital reserve fund, which at the end of 2018 amounted to an additional \$1.3 million.

The district expects fiscal 2019 to end relatively flat (non-GAAP basis). The fiscal 2019 budget represented a 1.98% increase over the prior year due to increased salaries and fringe benefits and included the maximum allowable 1% transfer into the capital reserve fund.

The district's primary source of revenues is member town assessments, which accounted for 83% of total revenues in fiscal 2018, with assessment proportionment based on enrollment. The district's second largest revenue stream is intergovernmental aid, comprised primarily of state on-behalf payments made to support the district's participation in Connecticut's Teachers Retirement System (TRS) and a modest amount of federal grants. The stability and credit quality of the district's member towns are core considerations in the rating as all three member towns maintain fund balances at or above 30% of revenues, have strong wealth levels, and receive less than 10% of their respective revenues from state aid, which in turn limits the district's exposure to future fiscal uncertainties at the state level.

RSD 12 does not have any direct taxing authority and member towns can levy property taxes without limit to meet assessments owed to the district and for repayment of debt service.

### **LIQUIDITY**

The district's net cash as of the close of fiscal 2018 totaled \$1.2 million or 4.9% of operating revenues. Additionally, the district maintains an \$1.3 million in liquidity in its debt service and capital reserve fund, which provides a modest additional source of liquidity for the district.

Member towns' net cash totaled \$12.5 million representing approximately 36% of the towns' collective operating revenues.

### **Debt and pensions: manageable debt levels and pension liability**

The district's debt burden will remain manageable. The district's direct debt burden is a low 0.4% of full value or 0.5 times operating revenues. The district anticipates taking out the current BANs upon the receipt of a state grant for the current project in 2021.

### **DEBT STRUCTURE**

All of the district's debt is fixed rate. The 2019 BANs are due April 9, 2020. The district plans to roll the notes until it receives the anticipated state grant in 2021, which it will utilize to entirely takeout the notes. 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 plan.

## PENSIONS AND OPEB

The district maintains a single-employer defined benefit plan for its non-certificated employees and also participates in the multi-employer cost-sharing Teachers Retirement System (TRS) plan administered by the state.

In fiscal 2018, the state made a \$3.3 million contribution on-behalf of the district. For the locally administered single-employer plan the district met its actuarially determined contribution of \$267,000.

The district's three-year average adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data is \$2.3 million, or a minimal 0.1 times operating revenues. When including the district's share of the TRS ANPL to the adjusted liabilities of the district managed plans, the ANPL increases to \$75 million, representing a still manageable 3 times revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities.

In fiscal 2018, the district had an OPEB UAAL of \$1.3 million. Total fixed costs (consisting of debt service, OPEB contributions and required pension payments) are low at 3% of fiscal 2018 revenues.

### **Management and governance: Conservative fiscal management reflected in stable operating performance; District challenged by declining enrollment**

Management has demonstrated strong budgetary controls as evidenced by its ability to match recurring revenues with recurring expenditures.

The district continues to experience declining enrollment. District enrollment is down from 1,057 in 2008 to 688 in 2018. Based on demographic reports, management anticipates enrollment approximately stabilizing through 2028.

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," or strong. Revenues, comprised mostly of member town assessments are highly predictable and stable, and the underlying revenues of the member towns are also predictable and stable due to their large reliance on property taxes. Member towns benefit from high revenue-raising ability due to the absence of a statewide property tax cap. Expenditures primarily consist of personnel costs and are highly predictable due to state-mandated school spending guidelines and employee contracts that dictate costs. Expenditure reduction ability is moderate based on constraints imposed by unions.

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