

CREDIT OPINION

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

Update to credit analysis

Summary

Regional School District 14 (Woodbury and Bethlehem), CT (Aa2) benefits from a moderately-sized tax base with a strong resident income and wealth profile. The district's reserve and liquidity position is limited due in part to statutory limits on reserves, however, annual operations have been very stable. The sound financial positions of the two member towns, Woodbury (Aa2) and Bethlehem, also 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 26, we upgraded the district's outstanding general obligation bonds to Aa2 and assigned a Aa2 to the district's General Obligation Bonds, Issue of 2019. Concurrently, we assigned a MIG 1 to the General Obligation Bond Anticipation Notes and affirmed the MIG 1 on the outstanding BANs.

Credit strengths

- » Stable tax base with strong wealth and income profile
- » Minimal exposure to state revenues
- » Low fixed costs

Credit challenges

- » Narrow reserves relative to national medians
- » Slightly elevated debt burden

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 coupled with improved income and wealth levels (GO)
- » Strengthened reserve and cash positions (GO)

Factors that could lead to a downgrade

- » Material increase in fixed costs (GO)
- » Narrowing of financial position (GO)
- » Deterioration of wealth and income profile (GO)
- » Contraction of taxable base (GO)
- » Deterioration of underlying credit profile or declines in cash (BANs)

Key indicators

Exhibit 1

Regional School District 14 (Woodbury & Bethlehem)	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$2,023,393	\$2,130,842	\$2,066,800	\$2,030,288	\$2,062,456
Population	13,402	13,314	13,215	13,176	13,176
Full Value Per Capita	\$150,977	\$160,045	\$156,398	\$154,090	\$156,531
Median Family Income (% of US Median)	161.1%	156.7%	150.1%	145.8%	145.8%
Finances					
Operating Revenue (\$000)	\$36,470	\$35,638	\$36,559	\$39,492	\$40,054
Fund Balance (\$000)	\$134	\$472	\$1,405	\$1,963	\$2,349
Cash Balance (\$000)	\$828	\$1,614	\$2,919	\$9,585	\$16,526
Fund Balance as a % of Revenues	0.4%	1.3%	3.8%	5.0%	5.9%
Cash Balance as a % of Revenues	2.3%	4.5%	8.0%	24.3%	41.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$1,377	\$885	\$603	\$7,703	\$22,902
3-Year Average of Moody's ANPL (\$000)	N/A	\$2,817	\$2,955	\$3,024	\$2,092
Net Direct Debt / Full Value (%)	0.1%	0.0%	0.0%	0.4%	1.1%
Net Direct Debt / Operating Revenues (x)	0.0x	0.0x	0.0x	0.2x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.1x	0.1x	0.1x	0.1x

Source: Moody's Investors Service

Profile

The district is made up of the towns of Woodbury (Aa1) and Bethlehem in northwest Connecticut. It provides kindergarten through 12th grade education to approximately 1,660 students.

Detailed credit considerations

Economy and Tax Base: Stable tax base with strong income and wealth levels

The district's \$2.1 billion tax base is comprised of the towns of Woodbury (Aa1) and Bethlehem and will remain stable given recent growth trends. The district's base, which is below the national median of similarly rated districts, has increased at a compound annual rate of 0.8% over the last five years. Positively, the net grand list (or assessed value) has increased annually for the last four years. Future development is modest and consist of a mix of residential and commercial projects.

The wealth and income profile of district residents is strong. Median family income for the district is 145.8% and 110.1% of the US and state medians, respectively. Full value per capita is a strong \$156,531 and the district's median home value is an above average 181.6% of the national median. As of April 2019, Litchfield County's unemployment rate of 3.1% was slightly below the state and national rates of 3.3%.

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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 48 years, significantly older than reflected in the district's 1990 census results, when the median age was 37.5 years. These trends are also reflected in the steady decline in enrollment over the last 10 years, a trend that officials expect to continue.

Financial Operations and Reserves: Adequate reserve position supported by positive operating trends

Despite reporting operating surpluses in five of the past six 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. Positively, the district has accumulated additional reserves in its capital projects fund, which provide some additional flexibility.

In fiscal 2018, the district ended the year with a \$387,000 operating surplus and the district's available operating fund balance increased to a still-narrow 5.8% of revenues, well below the national median of 15.8% for Aa3 rated school districts. The district maintained an additional \$1.3 million in the capital project fund.

The district expects fiscal 2019 to end with a modest surplus (non-GAAP basis) due to expenditures under budget. A portion of the surplus will be transferred to the capital fund, with a projected \$115,000 remaining surplus in the general fund. The fiscal 2020 budget was approved by voters on the first referendum for the first time in five years. The budget represents a 3.7% 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 75.9% of total revenues in fiscal 2018. Assessment proportionment is based on enrollment, with Woodbury accounting for 75% and Bethlehem for 25%. 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 2018 totaled \$16.5 million or 41.3% 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 \$15 million representing 33% of the towns' collective operating revenues.

Debt and Pensions: Slightly elevated debt burden; currently-low pension and OPEB liabilities

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 \$24.7 million 2019 bonds and the \$3 million BANs, the district's direct debt burden will be an average 1.9% of full value. The district does not anticipate any additional borrowing at this time.

DEBT STRUCTURE

All of the district's debt is fixed rate. The 2019 BANs are due July 23, 2020 and the district plans to issue long term bonds to take them out two weeks prior to maturity. The notes are expected to be repaid with state grants that are not disbursed to the district until the project is completed. In the event of market disruption or failure to receive grant revenues, 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 2018, 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 2018) in each of the past four years, which exceeds the tread water indicator.

The district's three year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$3.4 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 city managed plans, the ANPL increases to \$51.5 million, representing a still manageable 2.5% of full value and 1.3 times revenues.

In fiscal 2018, the district made a \$127,000 OPEB contribution. The district's unfunded OPEB liability is moderate at \$7 million. Total fixed costs (consisting of OPEB contributions and required pension payments) are low at 2.1% of fiscal 2018 revenues.

Management and Governance

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 1,656 in fiscal 2019. 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 school districts have an institutional framework score of "Aa," or strong. Revenues are highly predictable, due to a high reliance on member town assessments. School districts have a moderate ability to raise revenues as voter approval is required to increase assessments. Expenditures mostly consist of personnel costs, which are highly predictable due to multi-year bargaining agreements. School districts generally have a moderate ability to reduce expenditures, though public sector unions can present some challenge. Favorably, schools are not responsible for making contributions for teachers' pensions or retiree healthcare benefits.

Rating methodology and scorecard factors

Exhibit 2

Regional School District 14 (Woodbury & Bethlehem)

Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$2,062,456	Aa
Full Value Per Capita	\$156,531	Aaa
Median Family Income (% of US Median)	145.8%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	5.9%	A
5-Year Dollar Change in Fund Balance as % of Revenues	5.3%	A
Cash Balance as a % of Revenues	41.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	40.1%	Aaa
Notching Factors: ^[2]		
Other Analyst Adjustment to Finances Factor: Large due to other funds offsets high cash position		Down
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.9%	A
Net Direct Debt / Operating Revenues (x)	1.0x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.2%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.1x	Aaa
Notching Factors: ^[2]		
Other Analyst Adjustment to Debt and Pensions Factor (specify): Contingent risk associated with state pension support		Down
	Scorecard-Indicated Outcome	Aa3
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication.

Source: Moody's Investors Service

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