

CREDIT OPINION

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Regional SD 14 (Woodbury & Bethlehem), CT

Update to credit analysis

Summary

The credit quality of the [Regional School District 14](#) (Aa2 issuer rating) reflects the district's modest but stable residential economy, solid wealth measures and long term enrollment declines that have been recently improved. The credit quality of the member towns, including Aa1 rated Woodbury, which comprises about 80% of the district, is also a key rating factor since the district does not have any taxing authority. To the extent not paid from other sources, the bonds are payable by amounts apportioned to member towns for which they may levy taxes without limit as to rate or amount. The district's financial position is stable and has produced narrow ending reserves consistent with the state statute that requires that undesignated reserves be remitted back to member towns. The district's credit is also driven by its leverage position, which includes low fixed costs and moderate long term retirement liabilities.

Credit strengths

- » Stable operations supported by proactive budget management
- » Strong income and wealth levels
- » Minimal reliance on state aid

Credit challenges

- » Limited financial position due in part to statutory limit on unrestricted reserves
- » Extended period of declining enrollment trends

Rating outlook

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

Factors that could lead to an upgrade

- » Materially strengthened resident wealth levels
- » Stronger credit quality of the member towns
- » Improved enrollment trends

Factors that could lead to a downgrade

- » Significant increases in debt or capital needs
- » Material enrollment decline that drives weakened financial operations
- » Weakened credit quality of the member towns

Key indicators

Exhibit 1

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

	2018	2019	2020	2021	Aa Medians
Economy					
Resident income	133.5%	131.8%	150.4%	N/A	112.2%
Full value (\$000)	\$2,062,456	\$2,076,760	\$2,040,509	\$2,225,457	\$3,864,784
Population	13,069	12,995	12,942	N/A	31,619
Full value per capita	\$157,813	\$159,812	\$157,666	N/A	\$115,171
Enrollment	1,716	1,656	1,592	1,580	4,288
Enrollment trend	N/A	-2.2%	-3.4%	-2.7%	0.1%
Financial performance					
Operating revenue (\$000)	\$40,054	\$42,233	\$40,536	\$41,681	\$71,385
Available fund balance (\$000)	\$2,349	\$2,017	\$2,818	\$2,767	\$18,076
Net cash (\$000)	\$16,526	\$3,454	\$7,932	\$9,715	\$21,642
Available fund balance ratio	5.9%	4.8%	7.0%	6.6%	26.8%
Net cash ratio	41.3%	8.2%	19.6%	23.3%	31.5%
Leverage					
Debt (\$000)	\$22,902	\$30,805	\$42,465	\$46,616	\$51,433
ANPL (\$000)	\$3,418	\$3,253	\$4,080	\$1,981	\$111,819
OPEB (\$000)	\$6,733	\$9,670	\$10,026	\$9,559	\$10,587
Long-term liabilities ratio	82.5%	103.5%	139.6%	139.5%	317.0%
Implied debt service (\$000)	N/A	\$1,687	\$2,246	\$3,041	\$3,485
Pension tread water (\$000)	\$299	\$274	\$278	\$279	\$2,924
OPEB contributions (\$000)	\$212	\$289	\$271	\$226	\$368
Fixed-costs ratio	N/A	5.3%	6.9%	8.5%	11.5%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Regional School District 14 (Woodbury & Bethlehem)'s financial statements and Moody's Investors Service

Profile

Regional School District 14 is located in Litchfield County in northwestern Connecticut and serves the towns of Woodbury and Bethlehem. In 2022, the district's enrollment is approximately 1,600..

Detailed credit considerations

Economy

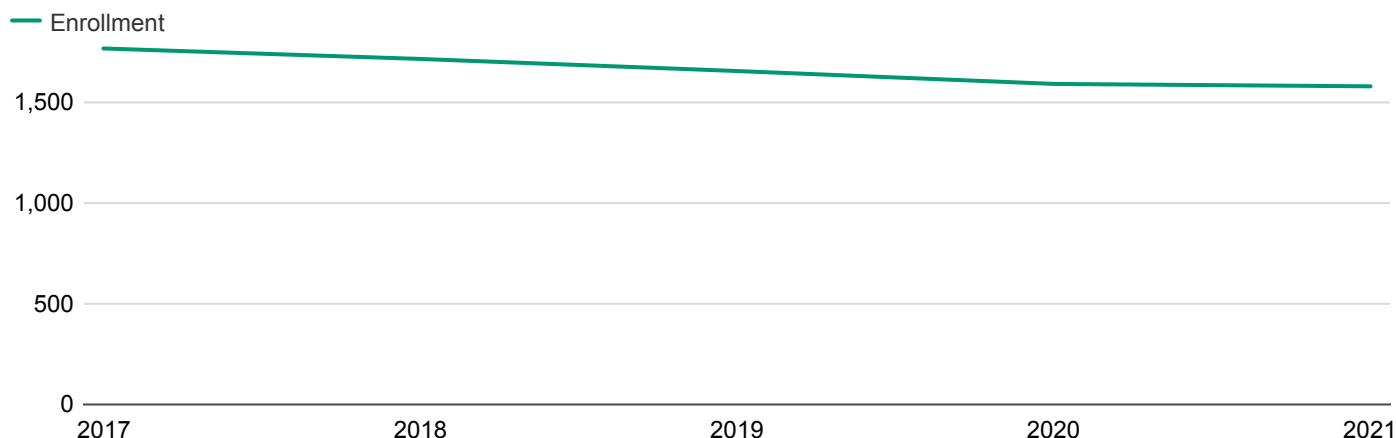
The district's rural and largely residential economy will remain stable and benefit from a modest influx of new residents and a competitive housing market supported by people with strong incomes. We anticipate that the district's key economic fundamentals will remain consistent with our current view of credit quality.

District enrollment has been in a long term period of decline with student loss in each of the last five years. This pattern has been at least temporarily blunted by a recent uptick in population driven by new residents who have relocated to the district during the pandemic. The district projects that these new arrivals will drive a modest 25 student increase in enrollment. However, these gains are unlikely to continue over the longer term and enrollment will probably resume its slow reduction. This mirrors the pattern of the overall

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district, which has undergone small population declines each year between 2014 and 2020. In addition, the median age of the district has increased rapidly and has increased from 47 in 2010 to 54 in 2020, which is well above the national median age of 38.

Exhibit 2

Enrollment

Source: State Department of Education

The district is located approximately 20 miles west of Waterbury in northwestern Connecticut. Future growth will be limited, but a new housing development is under construction and will add 25-30 homes to the tax base. Grand list stability is made more probable by the popularity of the area's residential market. The housing market remains robust and has been recently fueled by New York City resident seeking housing options outside of the city.

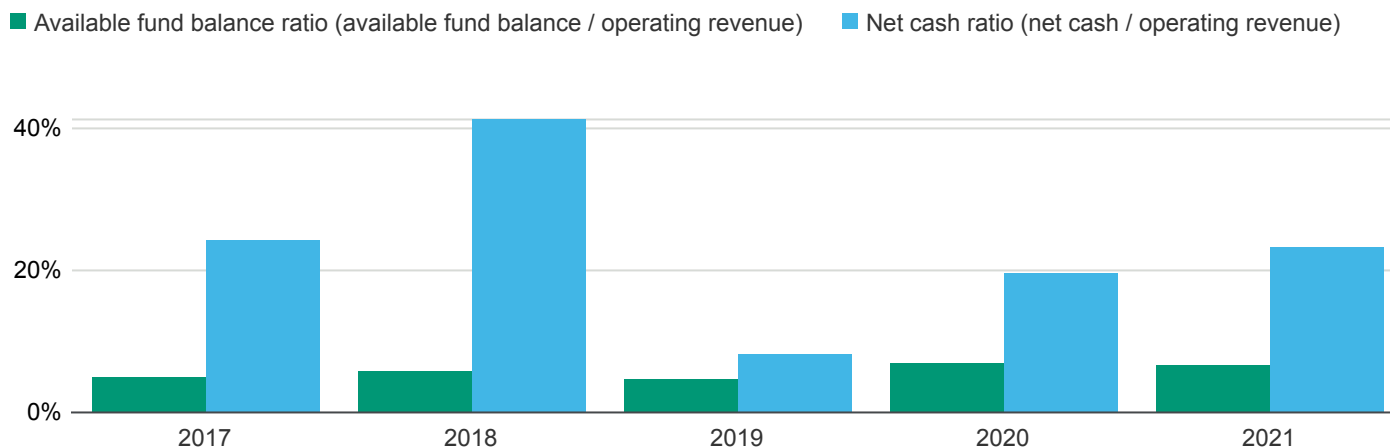
The wealth and income profile of district residents is particularly strong. Resident income for the district is 140% of the US. Full value per capita is a very strong and nearly \$160,000.

Financial operations

The district's narrow reserve position will likely remain at or near current levels given a state statute that limits the accumulation of undesignated reserves and requires that surpluses are remitted back to member towns. However, cash and reserves of member towns, which are solid, provide additional flexibility for the district to meet operating or debt service expenses, if needed. Regional districts are allowed to reserve 2% of budget annually in a capital fund.

The district has reported operating surpluses in each of the last two audited fiscal years and five of the last six fiscal years, including a \$534,000 surplus in fiscal 2021, which increased available fund balance to \$3.4 million, or 8% of revenue. Given state restrictions on reserve accumulation, the district's reserves are well below national medians and will be used to offset future payments from member towns. Total general fund balances of the member towns of \$10.2 million compares favorably to the district's operating budget of approximately \$41.6 million. Just over 80% of the total town's fund balance is attributable to the Town of Woodbury. Member assessments account for 78.5% of total district revenues. The credit quality of the district's member towns is a core consideration in the rating. The district does not have any direct taxing authority, and member towns can levy property taxes without limit to meet assessments owed to the district.

Exhibit 3

Fund balance and cash balance as percentage of operating revenues

Source: Issuer financial statements; Moody's Investors Service

The district reports that revenues and expenses for fiscal 2022 are in line with budgeted expectations and will likely result in a small operating surplus. The district received approximately \$515,000 in federal stimulus funds. These one-time revenues were allocated to fund four positions that present recurring costs. Once the federal funds are exhausted next year, the district will have to find new revenues or cost savings to avoid negative budget pressure.

Liquidity

The district's fiscal 2021 cash was a solid 23% of revenues. We anticipate that the fiscal 2022 audit will reflect a comparable level of liquidity.

Debt, Pensions and OPEB: Modest fixed costs and no additional debt plans

The district's moderate annual fixed costs will remain manageable given that it has no additional debt plans. The district debt burden is further reduced by its expectation that \$5 to \$6 million of its debt will be repaid by the State of Connecticut though the timing of the reimbursement is uncertain. The district is also monitoring inflation and is looking at fuel costs for next year, which will impact expenses for bussing and heating. However, district has built-in some budgetary flexibility to manage unanticipated increases to fuel prices though it is a modest portion of the overall budget.

Legal security

The district's bonds are general obligations of the district and its member towns of Bethlehem and Woodbury. The district and member towns will pledge their full faith and credit to pay the principal of and interest on the bonds when due.

Debt structure

All of the district's debt are fixed rate obligations.

Debt-related derivatives

The district is not a party to any derivatives.

Pensions and OPEB

The district participates in the Connecticut State Teachers' Retirement System (TRS). Currently, the state makes contributions on behalf of the district to fund this liability. As such, the school is exposed to the potential shift in contributions from the state to schools, which would result in an increase of fixed costs. Other post-employment benefits are funded on a pay-go basis and annual contributions are a minimal 0.54% of revenue. The district's fixed-costs ratio is low, at 8.1% of revenue.

Exhibit 4

Debt, Pensions and OPEB

2021	(000)	% of Operating Revenues	Discount Rate
Operating Revenue	41,681	n/a	n/a
Reported Unfunded Pension Liability	(819)	-2%	7.00%
Moody's Adjusted Net Pension Liability	1,981	5%	2.84%
Reported Net OPEB Liability	10,727	26%	2.16%
Moody's Adjusted Net OPEB Liability	9,559	23%	2.84%
Net Direct Debt	46,616	112%	n/a
Debt & unfunded retirement benefits (Moody's adjusted)	58,156	139.53%	
Pension Contribution	350	0.84%	n/a
OPEB Contribution	226	0.54%	n/a
Debt Service	2,892	6.94%	n/a
Total Fixed Costs	3,468	8.32%	n/a
Tread Water Gap	(71)	-0.17%	n/a
Moody's Adjusted Fixed Costs	3,397	8.15%	n/a

Source: Moody's Investors Service and Regional School District 14

ESG considerations**Environmental**

Environmental factors represent a limited risk to the district's credit profile. According to data compiled by Moody's ESG Solutions, the district is exposed to an elevated risk of hurricanes. This exposure is mitigated by the member towns' revenue and capital raising capacity, as well as federal government support for disaster recovery costs.

Social

Social considerations are key influencers of all local economies, financial and leverage trends and governance stability. Social factors are incorporated into the district's rating by way of the wealth (full value per capita) and income (median family income) metrics of the member towns. The district is proactive in taking steps to prevent and mitigate the impact of cyber events. We consider the coronavirus outbreak to represent social risk under our ESG framework, given the substantial implications for public health and safety.

Governance

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 ¹ of Aa. The bulk of district revenues are assessments collected by member towns and are paid from locally controlled property tax revenues, which are not subject to any caps. These assessments are approved by the member towns during the adoption and approval of the district's budget. The remainder of revenues are provided by the state. The state typically provides for regular increases in aid but has modestly reduced allocations in some years.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 5

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

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	150.4%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	171,956	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-1.3%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	6.6%	20.0%	Baa
Net cash ratio (net cash / operating revenue)	23.3%	10.0%	Aa
Institutional framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	139.5%	20.0%	Aa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	8.5%	10.0%	Aaa
Notching factors			
Potential cost shift from state	-0.50		
Scorecard-Indicated Outcome			Aa3
Assigned Rating			Aa2

Sources: US Census Bureau, Regional School District 14 (Woodbury & Bethlehem)'s financial statements and Moody's Investors Service

Appendix

Exhibit 6

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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