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Ratings

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Summary:

East Moriches Union Free School District, New York; General Obligation; School State Program

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Summary:

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Credit Profile		
US$6.315 mil sch dist rfdg ser bnds ser 2022 due 07/01/2028		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to East Moriches Union Free School District, N.Y.'s series 2022 school district general obligation (GO) refunding bonds. At the same time, we affirmed our 'AA-' rating on the district's existing GO debt. The outlook is stable.

The bonds are secured by the district's faith-and-GO credit pledge.

We understand proceeds from this issue will be used to refund all of the district's series 2012 refunding GO bonds.

Credit overview

Consistently sound financial operations, very strong reserves and a stable and mature area economy with good access to broader employment bases underpin the 'AA-' rating. Conservative budgeting practices have allowed for healthy surpluses over the past six years, which have markedly improved reserves. However, we understand the district plans to appropriate roughly $5.0 million of available reserves in the coming year to internally finance school capital projects. Although it will likely receive building aid of roughly 60%, it will be recouped over a longer period. Therefore, available reserves are projected to decline, yet still remain in line with peers. Given the planned appropriation for fiscal 2022, we do not expect to change the rating over our two-year outlook horizon.

In our opinion, the rating reflects the district's:

- Stable, primarily residential, area with good access to the broad and diverse New York City and Long Island metropolitan statistical area (MSA) employment bases;
- Mature tax base which continues to experience modest, yet consistent, growth with no taxpayer concentration;
- Sound financial position with very strong reserves, which are expected to moderate following near-term pay-as-you-go capital plans, coupled with modest dependence on state aid; and
- Moderate-to-high overall debt burden with above-average principal amortization and limited future debt issuance plans.

Environmental, social, and governance

We analyzed East Moriches Union Free School District's environmental, social, and governance (ESG) risks relative to the district's economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. Although the district is susceptible to coastal flooding, we believe the plans implemented and actions taken by the town of Brookhaven, should aid in alleviating any significant potential financial pressure on the district.

Stable Outlook

Upside scenario

In our opinion, if the district were to sustain currently very strong reserve levels after factoring in pay-as-you-go capital costs and managing debt levels, while keeping other factors constant, we could raise the rating.

Downside scenario

Conversely, if the district were to face fiscal pressures either from operations or capital costs, and reserves were used to bridge the imbalances without a timely plan to restore reserves, we could lower the rating.

Credit Opinion

Stable, mature residential area with good access to broader employment bases

East Moriches Union Free School District is in the eastern portion of the town of Brookhaven in Suffolk County. The district is mature and primarily residential. Residents have easy access to employment across Long Island and throughout the greater New York City MSA via several major thoroughfares and rail. Given its location and participation in the MSA, county unemployment has remained below the national averages while wealth and income levels have remained above the nation.

Given the mature nature of the district and limited economic development, its tax base has demonstrated modest growth of 2% over the past five years to a current $7.7 million, primarily from property appreciation, yet equates to a market value of $1.04 billion. We expect the district's tax base to remain stable over the near term.

The district currently provides grade K-8 education to 1,011 students via two school facilities. High school students have the choice of attending one of three nearby high schools, in which the district pays tuition to the receiving district based on the state formula. Enrollment has modestly declined in recent years, partially due to the pandemic, but the district anticipates an increase in students following the pandemic. Capacity is not a concern at this time. We understand the district will look for voter approval in May 2022 to internally finance the cost of renovations to one of its two schools.

Good fiscal plans and policies with conservative management practices

Highlights include the use of historical trend analysis for budget preparation looking back three to five years for both revenues and expenditures. Budget to actuals are monitored and reported to council on a regular basis. The district does maintain a long-term financial plan, which is updated annually and includes the current budget year plus three years and includes assumptions for revenues and expenditures. The district maintains the state required building condition survey for capital needs. The district has adopted its own investment policy and monitors and reports on investments and performance monthly. The district does not have its own formal debt issuance policy but does maintain a formal reserve policy, which requires the unassigned general fund balance to remain within 2%-4% of expenditures. The policy also includes a replenishment component. A cyber-security insurance policy is also maintained.

Sound financial position with currently very strong reserves, which are expected to decline following pay-go capital costs over the near term

The district's financial position has markedly improved in recent years following its deterioration in the mid-2000s, which required the issuance of deficit bonds in 2007 and state oversight through 2017. Over the past several years, the district has worked toward restoring structural balance and increasing reserves through more conservative budgeting practices, increases in revenues, primarily property taxes, and ongoing cost cutting measures. As a result, the district closed fiscal 2021 with its sixth consecutive surplus of $2.8 million. The available fund balance rose to $7.78 million or a very strong 28.5% of expenditures compared with $1.7 million or a good 6.9% in fiscal 2018. Total general fund balance increased to $11.75 million or a very strong 43.1% of expenditures. The district depends primarily on property taxes for general fund revenue (66%), followed by state aid (25%). East Moriches has raised property tax rates annually, yet remaining within the levy cap. For cash flow purposes, the district has historically issued tax anticipation notes (TANs) ranging from $5.0 million to $7 million in recent years. However, management's intentions have been to decrease TAN amounts over time and ultimately eliminate their use in the near to moderate term. To that end, the district was able to reduce TAN issuance to $1.0 million in fiscal 2021 and did not issue TANs in fiscal 2022; a factor we see as positive.

While revenues are expected to close slightly over budget and expenditures under budget, the district is projecting a drawdown for fiscal 2022 as plans call for the use of roughly $5.0 million of available reserves to fund capital projects. Reserves are slated to be transferred to the capital reserve with project construction to begin in the summer of 2023. According to the district, reserves are estimated to close with an unassigned general fund balance of $2.6 million (compared with $7.18 million in fiscal 2021) or 9% of expenditures. Management has indicated that although it maintains a formal fund balance policy of 2%-4% of expenditures, it plans to maintain the unassigned general fund balance somewhere between 8%-10%. Furthermore, the district has been slated to receive a total of $1.6 million in federal stimulus funds (ESSER, CARES and ARPA), much of which it has received already. Following its conservative practices, the district does not plan to use these funds for recurring costs but rather for one-time costs such as the purchase of technology, security upgrades, and curriculum expansion.

The district is currently working on the fiscal 2023 budget, which it plans to adopt in the coming month. Property taxes are expected to remain flat.

Moderate-to-high overall net debt burden, with rapid amortization

Following this issuance, the district has $7.3 million in net direct debt outstanding after accounting for state aid reimbursements estimated at about $5.0 million. As previously stated, the district plans to internally finance about $5 million for a school kitchen renovation and an outside play area. We understand the board has already approved the project and spending and plans to go to voters in May 2022 for final approval. Management does not anticipate voter resistance. We expect the district's building aid (estimated at about 60%) to somewhat offset district's finances over the long term.

Pension and other postemployment benefit liabilities

- We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate credit pressure for the district due to our opinion of current strong plan funding and limited escalating cost-trajectory risk.

- However, OPEB liabilities--which management funds on a pay-as-you-go basis, supported by claims volatility and medical cost and demographic trends--are likely to lead to rising costs, which could create budgetary pressure.

As of the fiscal 2021 audit, the district participates in the following:

- New York State Teachers' Retirement System (NYSTRS), funded at 113.3%, with the district's proportionate share of the net pension liability (NPL) at $1.15 million; and
- New York State Employees' Retirement System (NYSERS), funded at 100%, with the district's proportionate share of the NPL at $4,000.

Also, the district's OPEB liability was $41.8 million and 0% funded as of the fiscal 2021 audit.

In fiscal 2021, East Moriches union free school district paid its full required contributions of $883,000 toward pension obligations or a manageable 3.2% of total governmental expenditures. It also paid $770,000, or 2.7% of total governmental expenditures, toward OPEBs. The combined pension and OPEB carrying charge was 5.9% of total governmental fund expenditures in that year. Although we consider the risk of pension cost escalation low, we believe OPEB costs will generally increase, which could increasingly pressure the long-term budget because New York State does not allow OPEB prefunding.

East Moriches Union Free School District, NY -- Key Credit Metrics

	Characterization	Most recent	Historical information		
			2021	2020	2019
Economic indicators					
Population				6,150	6,227
Median household EBI % of U.S.	Very strong			153	139
Per capita EBI % of U.S.	Very strong			142	123
Market value ($000)		1,041,607	999,636	969,521	887,925
Market value per capita ($)	Extremely strong	169,367	162,542	157,646	142,593
Top 10 taxpayers % of taxable value	Very diverse	8.6		7.5	7.6
Financial indicators					
Total available reserves ($000)			7,777	5,338	3,349
Available reserves % of operating expenditures	Very strong		28.5	20.7	12.6
Total government cash % of governmental fund expenditures			36.0	27.8	15.9
Operating fund result % of expenditures			10.3	9.9	7.6
Financial Management Assessment	Good				
Enrollment		1,011	1,042	1,125	1,134
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	3.6	4.3	4.4	4.5
Overall net debt per capita ($)	High	6,172	6,781	6,916	6,486
Debt service % of governmental fund noncapital expenditures	Low		4.9	5.3	5.3
Direct debt 10-year amortization (%)	Rapid	77	79	71	65

East Moriches Union Free School District, NY -- Key Credit Metrics (cont.)					
	Characterization	Most recent	Historical information		
			2021	2020	2019
Required pension contribution % of governmental fund expenditures			3.2	2.8	3.3
OPEB actual contribution % of governmental fund expenditures			2.7	2.8	2.4
Minimum funding progress, largest pension plan (%)			96.3	94.2	125.0

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of March 18, 2022)		
East Moriches Un Free Sch Dist GO State Credit Enhancement (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	NR	
East Moriches Un Free Sch Dist GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	NR	

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.