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Summary:

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

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Table Of Contents

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Credit Profile		
East Moriches Un Free Sch Dist GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Underlying Rating for Credit Program	NR	
East Moriches Un Free Sch Dist GO		
Underlying Rating for Credit Program	NR	
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on East Moriches Union Free School District, N.Y.'s existing general obligation (GO) debt to 'AA-' from 'A+'. The outlook is stable.

The upgrade reflects the district's improving financial position and increased reserves levels, which are expected to be, at least, maintained, if not increased over the near term. The district's participation in the broad and regional New York City--Long Island employment base and healthy area economy, coupled with the lack of planned additional debt, lends stability to the rating.

The district's faith-and-credit pledge secures the bonds.

The rating reflects our opinion of the district's:

- Stable, primarily residential, area with good access to the broad and diverse New York City-Long Island metropolitan employment bases,
- Mature and stable tax base with strong to very strong wealth and income levels,
- Improved financial position with increasing reserves, which are expected to be maintained, coupled with modest dependence on state aid,
- Moderate to high overall debt burden, yet with limited future capital needs.

Economy

East Moriches Union Free School District serves an estimated population of 5,943. In our opinion, median household effective buying income (EBI) is very strong at 143% of the national level, but per capita EBI is strong at 122%. The district's total $838.2 million market value in 2019 is extremely strong, in our view, at $141,047 per capita. From 2017 to 2019 (the latest year available), assessed value has increased by a total of 0.4% to $7.5 million. Roughly 8.8% of assessed value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion.

The district is a suburban residential community comprising a portion of the town of Brookhaven in southeastern Suffolk County on Long Island. Residents have easy access to employment across Long Island and throughout the greater New York City area via several major thoroughfares and rail. Given its location and participation in the metropolitan statistical area, unemployment has remained below the national averages while wealth and income levels have trended above the nation.

Given the mature nature of the district and limited economic development, the district's tax base has remained constant over the past five years at $7.5 million, which equates to a market value of $838.2 million. We expect the district's tax base to remain stable over the near term.

The school district serves a school population of 1,100. Enrollment has held relatively constant and is not expected to experience shifts in the near term. Furthermore, there are no capacity issues. Elementary and middle-school students attend the kindergarten to grade eight school while high-school-age students attend one of three high schools in neighboring districts.

Finances

New York State aid for school districts is offered on both a foundational and a categorical expense-driven basis. Foundational aid in New York State consists of more than two-thirds of state school aid and a district's aid cannot be reduced below prior-year levels. Categorical expense-driven aid, for expenses such as transportation and building construction, is based on spending, wealth, and need factors and is therefore less affected by enrollment trends. For these reasons, we believe that changes to enrollment in the near term are unlikely to have significant impact on state aid receipts for the district. In 2019, enrollment came in at 1,134 students. Enrollment increased in each year from 2017 to 2019.

The district's financial position deteriorated in the mid-2000s, requiring the issuance of deficit bonds in fiscal 2007 and state oversight through fiscal 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 well as health care benefit savings. As a result, the district closed fiscal 2018 with its third consecutive surplus of $565,000 or 2.2% of expenditures. The available fund balance of $1.7 million (which consists of the assigned and unassigned general fund balance) is good in our view, at 6.9% of general fund expenditures at fiscal year-end (June 30) 2018. Total general fund balance was $4.37 million or a very strong 17.3% of expenditures. The district depends primarily on property taxes for general fund revenue (71.9%), followed by state aid (25.1%). 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 $7.0 million for the past five years. Management's intentions are to decrease future TAN amounts and then eliminate their use in the near to moderate term.

The district estimates fiscal 2019 to close with another surplus as revenues have been trending slightly over budget while expenditures were on target. Therefore, reserves are expected to remain in line with the prior year.

The fiscal 2020 budget is structurally balanced and totals $28.85 million at 3.06% increase from the prior year. Given the recent positive financial trends, we do not believe the district's financial position will weaken in the near term.

Management

Following the receipt of updated fiscal policy information, we have revised the district's FMA score to good from standard.

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

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.

Debt

Overall net debt is moderate, in our opinion, at 4.7% of market value, but high on a per capita basis at $6,685. Amortization is fairly rapid, with 67% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 5.6% of total governmental fund expenditures excluding capital outlay in fiscal 2018, which we consider low.

The district has no plans to issue additional debt in the near term.

Pension and other postemployment benefit liabilities

The District participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS) cost-sharing multiple employer, public employee retirement systems. The district paid its full required contribution of $783,000 toward its pension obligations in fiscal 2018, or 3.0% of total governmental expenditures. In fiscal 2018, the district also paid $523,000, or 2.0% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 5.0% of total governmental fund expenditures in 2018. In fiscal 2018, ERS and TRS plan fiduciary net positions as a percentage of the total pension liability were 98.24% and 101.53%, respectively.

Outlook

The stable outlook reflects the district's improving financial position and reserve levels brought on by more conservative budgetary practices and several formal fiscal policies. The area economy and access to a broad and diverse employment base lends stability to the rating. As such, we do not expect to change the rating over our two-year outlook period.

Upward scenario

In our opinion, if the district continues its positive fiscal trend and to increase and sustain strong reserves, while keeping all other factors constant, an upgrade may warranted.

Downward scenario

Although unlikely, if the district were to face fiscal pressures, either operationally or for additional capital needs, and reserves were used to bridge any imbalances without a plan to restore reserves in a timely manner, the rating may be lowered.