

## ISSUER COMMENT

1 May 2018

### RATING

**General Obligation (or GO Related)** <sup>1</sup>

Aa2 No Outlook

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# Port Jefferson Union Free School District, NY

## Annual Comment on Port Jefferson UFSD

### Issuer Profile

Port Jefferson Union Free School District is located in Suffolk County, New York, on the north shore of Long Island, approximately 50 miles east of New York City. The county has a population of 1,498,130 and a high population density of 1,642 people per square mile. The county's median family income is \$104,790 (1st quartile) and the December 2017 unemployment rate was 4.5% (3rd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are health services, retail trade, and local government.

### Credit Overview

The credit position for Port Jefferson UFSD is very high quality, and its Aa2 rating is slightly stronger than the median rating of Aa3 for US school districts. Notable credit factors include a robust financial position, a very strong wealth and income profile and a healthy tax base. The credit position also reflects a negligible debt burden and a mid-ranged pension liability.

**Finances:** The district has a robust financial position, which is relatively favorable when compared to the assigned rating of Aa2. Port Jefferson UFSD's cash balance as a percent of operating revenues (53.1%) is far superior to the US median, and saw an impressive increase between 2013 and 2017. Furthermore, fund balance as a percent of operating revenues (37.5%) is far stronger than other Moody's-rated school districts nationwide.

**Economy and Tax Base:** Overall, the district has an exceptionally healthy economy and tax base, which are relatively favorable in comparison to its Aa2 rating. Median family income equates to a robust 226.9% of the US level. Moreover, full value per capita (\$332,447) is materially above the US median, and stayed the same between 2013 and 2016. Port Jefferson UFSD's total full value (\$2.5 billion) is slightly stronger than other Moody's-rated school districts nationwide.

**Debt and Pensions:** The debt burden of the district is negligible and is favorable with respect to the assigned rating of Aa2. Net direct debt to full value (0.2%) is significantly below the US median, and stayed flat between 2013 and 2017. Yet, the pension liability of Port Jefferson UFSD is mid-ranged and is weak in relation to its Aa2 rating. Moody's-adjusted net pension liability to operating revenues (1.2x) favorably is slightly under the US median. The majority of New York school districts receive state building aid reimbursements for approved capital spending which can be used to help offset debt costs.

**Management and Governance:** New York school districts have an Institutional Framework score <sup>3</sup> of A, which is moderate compared to the nation. Institutional Framework scores

measure a sector's legal ability to increase revenues and decrease expenditures. New York school districts operate within a state-imposed property tax cap, which limits their ability to increase their operating levy by the lesser of 2% or CPI. This cap cannot be overridden at the local level, but can be overridden with 60% voter approval. Unpredictable revenue fluctuations tend to be low, or less than 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

### **Sector Trends - New York School Districts**

New York's economic expansion continues, although it varies widely by region. School districts continue to be constrained by the statewide property tax cap, but most are able to maintain balanced operations, in part due to favorable state aid trends and declining required pension contributions. Enrollment has generally remained flat with modest increases in some areas. Charter schools have not created pressure in New York.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 1

## Key Indicators 4.5 Port Jefferson UFSD

	2013	2014	2015	2016	2017	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$2,646M	\$2,524M	\$2,520M	\$2,518M	N/A	\$1,870M	Stable
Full Value Per Capita	\$335,817	\$320,068	\$325,516	\$332,447	N/A	\$83,193	Stable
Median Family Income (% of US Median)	224%	230%	227%	227%	227%	103%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	30.7%	36.8%	36.1%	36.0%	37.5%	21.0%	Improved
Net Cash Balance as % of Operating Revenues	29.4%	37.2%	40.5%	49.3%	53.1%	25.7%	Improved
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.3%	0.2%	0.2%	0.1%	0.2%	1.5%	Stable
Net Direct Debt / Operating Revenues	0.19x	0.15x	0.12x	0.09x	0.13x	0.72x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.8%	2.0%	2.1%	1.7%	2.0%	3.0%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.25x	1.28x	1.29x	1.03x	1.23x	1.54x	Stable

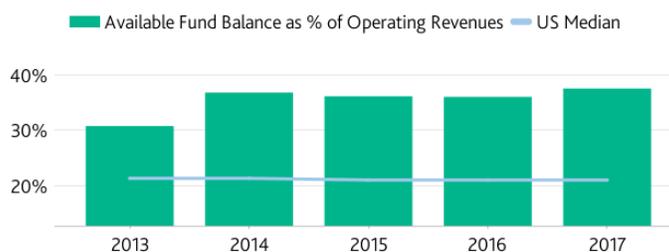
  

	2013	2014	2015	2016	2017	US Median
<b>Debt and Financial Data</b>						
Population	7,880	7,888	7,744	7,576	N/A	N/A
Available Fund Balance (\$000s)	\$11,851	\$14,538	\$14,633	\$14,833	\$15,565	\$8,051
Net Cash Balance (\$000s)	\$11,347	\$14,703	\$16,400	\$20,304	\$22,053	\$9,817
Operating Revenues (\$000s)	\$38,556	\$39,534	\$40,528	\$41,210	\$41,504	\$38,823
Net Direct Debt (\$000s)	\$7,140	\$6,000	\$4,865	\$3,670	\$5,561	\$26,674
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$48,045	\$50,426	\$52,327	\$42,554	\$51,220	\$54,746

Source: Moody's Investors Service

## EXHIBIT 2

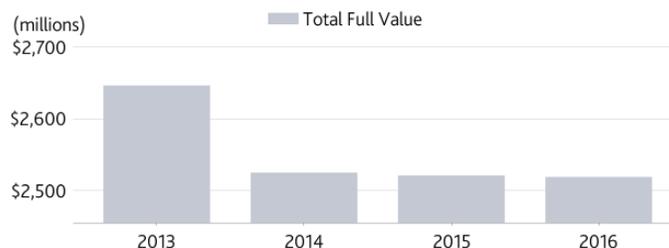
## Available fund balance as a percent of operating revenues increased from 2013 to 2017



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

## Full value of the property tax base decreased from 2013 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues remained stable from 2013 to 2017



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
  - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
  - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
  - The medians come from our most recently published local government medians report, [Medians - Tax Base Growth Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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