

## CREDIT OPINION

15 January 2016

### New Issue

Rate this Research >>

#### Contacts

Edna R Marinelarena 212-553-1383  
*Analyst*  
 edna.marinelarena@moodys.com

Tiphany Lee-Allen 212-553-4772  
*Analyst*  
 tiphany.lee-allen@moodys.com

## Port Jefferson Union Free School District, NY

New Issue - Moody's assigns Aa2 to Port Jefferson UFSD, NY's \$3.8M GO Ref. Bonds, Ser. 2016

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Port Jefferson Union Free School District's (NY) \$3.8 million School District Refunding Serial Bonds, 2016. Concurrently, Moody's has affirmed the district's \$4.9 million of outstanding general obligation parity debt.

The Aa2 rating reflects the district's moderately-sized wealthy tax base with significant taxpayer concentration, well-managed financial position with ample reserves and liquidity, and low debt profile.

### Credit Strengths

- » Moderately large wealthy tax base
- » Strong management with conservative budgetary practices
- » Ample reserves and liquidity
- » Low direct debt

### Credit Challenges

- » Significant taxpayer concentration
- » Limited revenue raising ability as a result of state imposed tax cap

### Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

### Factors that Could Lead to an Upgrade

- » Diversification of tax base
- » Growth in taxable values

### Factors that Could Lead to a Downgrade

- » Trend of structural balance resulting in reduced financial flexibility

- » Loss of top taxpayer
- » Material declines in tax base pressuring property tax revenue

## Key Indicators

Exhibit 1

Port Jefferson Union Free Sch Dist, NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,844,214	\$ 2,668,127	\$ 2,646,242	\$ 2,524,697	\$ 2,520,796
Full Value Per Capita	\$ 356,328	\$ 333,224	\$ 335,817	\$ 320,393	\$ 319,898
Median Family Income (% of US Median)	N/A	224.5%	224.5%	224.5%	224.5%
Finances					
Operating Revenue (\$000)	\$ 35,525	\$ 36,984	\$ 38,556	\$ 39,534	\$ 40,528
Fund Balance as a % of Revenues	23.5%	25.3%	30.7%	36.8%	36.1%
Cash Balance as a % of Revenues	23.1%	29.3%	29.4%	37.2%	40.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 9,315	\$ 8,240	\$ 7,140	\$ 6,000	\$ 4,865
Net Direct Debt / Operating Revenues (x)	0.3x	0.2x	0.2x	0.2x	0.1x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	1.2x	1.3x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.1%	1.8%	2.0%	2.1%

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Wealthy Residential Suburb in Suffolk County

The district's mature tax base will continue to benefit from its proximity to employment opportunities throughout both Suffolk (A3 stable) and Nassau counties (A2 stable), as well as New York City (Aa2 stable). Located within the Town of Brookhaven (Aa2 positive), the district boundaries, which encompasses approximate 4 square miles, includes the villages of Belle Terre, Port Jefferson (Aa3), and portions of Poquott. The district's \$2.5 billion full valuation has experienced declines, as a result of successful tax appeals, averaging a 4.6% annual loss since 2011. Similarly, assessed values have declined on average by 0.6% during the same period. Officials expect values to stabilize as a result of improving economic conditions.

Notably, significant taxpayer concentration exists with Marketspan Generation LLC which operates an energy generation facility in the district. The power plant accounts for a high 49.5% of assessed value and provides 190 jobs within the district. We expect this plant will remain stable given its importance to the power supply on Long Island. Wealth levels are a credit strength for the district and are well above the state and national averages (MFI measures 223.7% of US). The above average full value per capita of \$319,898, in part, reflects the presence of the energy generation facility.

### Financial Operations and Reserves: Well-Managed Financial Position Expected to Remain Healthy

Port Jefferson UFSD's solid financial position will remain healthy given prudent management with strong budgetary practices. Over the last five years (2011-2015), the district's General Fund balance has averaged \$8.9 million or a sound 23.2% of revenues. Due to conservative budgeting revenues and expenditures, the district successfully reported four consecutive surpluses increasing General Fund balance to \$13.3 million or an ample 32.9% of revenues in fiscal 2015. Favorably, the district's primary revenues are derived from stable property taxes, which represented 88.1% of revenues in fiscal 2015. Property tax revenue has been a stable source of revenue increasing by on average by 3% annually since 2011. Total average revenue growth of 2.8% annually, inclusive of state aid (8.4%), was sufficient

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.

to cover the modest annual expenditure growth of 1.0% (2011-2015). The district maintains an unassigned fund balance at 4%, which is the maximum allowed by the state.

For fiscal 2016, the district's budget-to-budget increase of 5.1% was primarily driven by increases in capital projects. Officials have reserved \$1.5 million from General Fund balance for use in pay-go projects. The modest appropriation of \$736,000 is expected to be replenished, and officials anticipate stable fiscal performance at year-end.

#### LIQUIDITY

The district benefits from a highly liquid fund balance that is expected to remain sound. In fiscal 2015, cash reserves increased to \$16.4 million (40.5% of revenues) from a lower \$7.95 million (22.4% of revenues) in fiscal 2010. As is typical of property tax dependent districts in New York, Port Jefferson UFSD has relied on short-term tax anticipation notes for cash flow needs. Positively, the district's reliance is declining. In fiscal 2015, TAN issuance was \$3.5 million down from a high \$8.6 million in fiscal 2015. For fiscal 2016, the district issued \$2.5 million.

#### Debt and Pensions: Low Debt Burden with Manageable Pension Costs

The low debt burden (0.2% of full value) will remain modest given rapid amortization of principal (100% repaid within ten years) and the absence of near term borrowing plans. The overall debt burden increases modestly to 1.3% of full value, largely reflecting the overlapping obligations of Suffolk County, Town of Brookhaven and Village of Port Jefferson. Debt service was a low 3.5% of 2015 expenditures.

#### DEBT STRUCTURE

As of fiscal 2015, the district had \$4.9 million of outstanding general obligation debt, all fixed rate, and amortized over the long-term.

#### DEBT-RELATED DERIVATIVES

The district is not party to derivative agreements.

#### PENSIONS AND OPEB

Pension and OPEB costs are not a source of pressure for the district, and are expected to remain manageable. The district participates in the New York State and Local Employees Retirement System and the New York State Teachers Retirement System (TRS), two multi-employer defined benefit retirement plans sponsored by the State of New York (Aa1 stable). The district's combined three-year adjusted net pension liability, under Moody's methodology for adjusting reported pension data, was \$53 million, or an average 1.31 times total operating revenues. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans and do not factor in the district's recent amortizations.

The district also provides employees with Other Post-Employment Benefits (OPEB) and as of fiscal 2015, had an unfunded actuarial liability of \$23.8 million. The district does annual pay-as-you-go contributions which totaled \$4.8 million in fiscal 2015 (44.1% of annual OPEB cost). Total fixed costs, including pension, OPEB and debt service, totaled \$6.6 million or 17% of expenditures in fiscal 2015.

#### Management and Governance

The district has a long standing history of strong management with prudent budgetary controls and conservative assumptions.

New York school districts have an institutional framework score of "A," or moderate. Revenues, are moderately predictable and primarily consist of property taxes and state aid. Full collection of property tax revenues is guaranteed by counties and towns. Districts have a moderate ability to raise revenues as the state limits the annual growth in the property tax levy to the lower of 2% or the rate of inflation. Districts can exceed the cap with voter approval. Expenditures, which primarily consist of personnel costs, are moderately predictable. Strong collective bargaining groups and the Triborough Amendment result in a low ability to reduce costs.

#### Legal Security

The bonds are secured by the district's general obligation unlimited ad valorem tax pledge

## Use of Proceeds

Proceeds will refund the district's outstanding GO Series 2006 and Series 2008 for an estimated net present value savings of \$120,000 or 3.2% of refunded principal.

## Obligor Profile

Port Jefferson Union Free School District is located in Suffolk County providing k-12 programming to a population of 7,880.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 2

### PORT JEFFERSON UNION FREE SCHOOL DISTRICT, NY

Issue	Rating
School District Refunding Serial Bonds, 2016	Aa2
Rating Type	Underlying LT
Sale Amount	\$3,800,000
Expected Sale Date	01/21/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1012295

Contacts

Edna R Marinelarena <i>Analyst</i> edna.marinelarena@moody's.com	212-553-1383	Tiphany Lee-Allen <i>Analyst</i> tiphany.lee-allen@moody's.com	212-553-4772
--	--------------	--	--------------

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454