

ISSUER COMMENT

31 March 2017

RATING

General Obligation (or GO Related)¹

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. Suffolk County has a population of 1,502,968 and a population density of 1,648 people per square mile. The county's per capita personal income is \$56,725 (1st quartile) and the November 2016 unemployment rate was 4.1% (2nd quartile).² 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 above the median rating of Aa3 for US school districts. Key credit factors include a robust financial position, and a solid tax base with an exceptionally strong socioeconomic profile. It also takes into account a mid-ranged pension liability with an extremely small debt burden.

Finances: The financial position of the district is robust with respect to the assigned rating of Aa2. The net cash balance as a percent of revenues (49.3%) is far above the US median and grew significantly between 2013 and 2016. Additionally, Port Jefferson UFSD's available fund balance as a percent of operating revenues (36.0%) is much higher than the US median.

Economy and Tax Base: The economy and tax base of the district are exceptionally strong when compared to its Aa2 rating position. The median family income equates to a robust 226.9% of the US level. In addition, the full value per capita (\$325,235) is materially above other Moody's-rated school districts nationwide. Lastly, the total full value (\$2.5 billion) is slightly stronger than the US median. Yet, this number declined modestly from 2013 to 2016.

Debt and Pensions: Port Jefferson UFSD has an extremely small debt liability. The net direct debt to full value (0.1%) is significantly below the US median. In addition, the pension burden of the district is light when compared with its Aa2 rating. The Moody's-adjusted net pension liability to operating revenues (1.0x) is favorably under the US median and favorably decreased modestly between 2013 and 2016.

Management and Governance: The ability to generate positive operating margins is a sign of strong financial management. Advantageously, on average, Port Jefferson UFSD ran surpluses even as the tax base generally declined.

New York school districts have an institutional framework score ³ 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 60% 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. The majority of districts receive state building aid reimbursements for approved capital spending which can be used to help offset debt costs.

Sector Trends - New York School Districts

New York's economic expansion continues, although future growth may occur at a more moderate pace. School districts continue to face challenges balancing financial operations due to the statewide property tax cap. However, most school districts are generally able to maintain balanced operations. Trends of increased state aid will help mitigate revenue challenges, while declining mandated pension contributions will ease the fixed cost burden. Enrollment has generally remained flat with modest increases in some areas. Charter schools have not created pressure in New York.

EXHIBIT 1

Key Indicators^{4 5}

Port Jefferson UFSD, NY

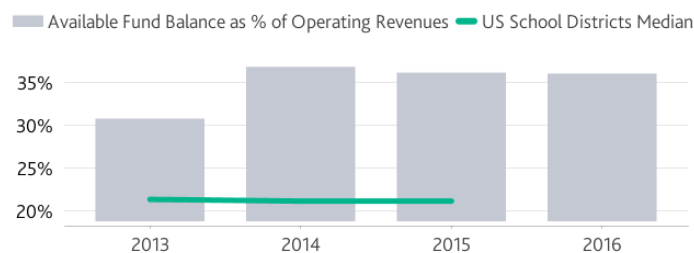
	2013	2014	2015	2016	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$2,646M	\$2,525M	\$2,521M	\$2,519M	\$1,872M	Stable
Full Value Per Capita	\$335,817	\$320,068	\$325,516	\$325,235	\$80,896	Stable
Median Family Income (% of US Median)	223.7%	230.1%	226.9%	226.9%	103.1%	Stable
Finances						
Available Fund Balance as % of Operating Revenues	30.7%	36.8%	36.1%	36.0%	21.1%	Improved
Net Cash Balance as % of Operating Revenues	29.4%	37.2%	40.5%	49.3%	25.1%	Improved
Debt / Pensions						
Net Direct Debt / Full Value	0.27%	0.24%	0.19%	0.15%	1.5%	Stable
Net Direct Debt / Operating Revenues	0.19x	0.15x	0.12x	0.09x	0.75x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.8%	2.0%	2.1%	1.7%	3.1%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.25x	1.28x	1.29x	1.03x	1.58x	Stable

Source: Moody's

EXHIBIT 2

Available fund balance as a percent of operating revenues grew from 2013 to 2016

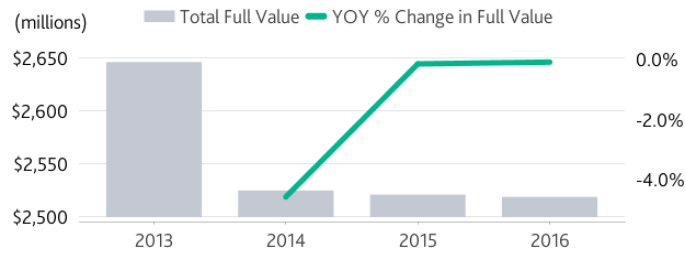
Available Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

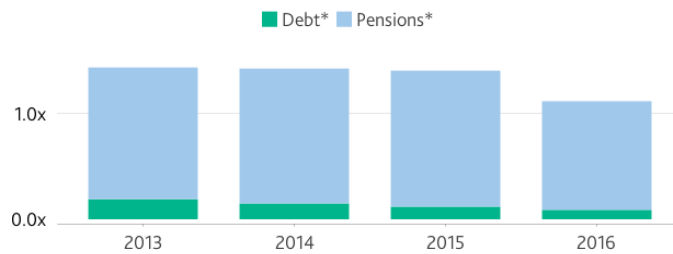
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 3

Total full value decreased between 2013 and 2016**Total Full Value**

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

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2013 to 2016**Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues**

*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

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

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as 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 guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to 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 first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 3.6% for November 2016.
- 3 The institutional framework score measures 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 \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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