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Summary:

Homer Central School District, New York; School State Program

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Summary:

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Credit Profile		
Homer Cent Sch Dist GO sch dist rfdg (serial) bnds		
Long Term Rating	AA-/Stable	Affirmed
School Issuer Credit Rating	AA-/Stable	Affirmed
Homer Cent Sch Dist GO (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
School Issuer Credit Rating	AA-/Stable	Affirmed
Homer Cent Sch Dist		
School Issuer Credit Rating	AA-/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long-term rating, underlying rating (SPUR), and school issuer credit rating on Homer Central School District, N.Y.'s series 2006, 2009, and 2010 school district (serial) general obligation (GO) bonds. The outlook is stable.

The rating reflects our view of the district's:

- Large, rural-residential area benefiting from access to the Syracuse, Ithaca, and Binghamton metropolitan statistical areas, resulting in good income levels;
- Strong reserves despite drawdowns in two of the past three audited fiscal years; and
- Low overall debt burden, net of state building aid, coupled with rapid amortization.

The aforementioned credit strengths are offset in part by our view of the district's budgetary pressures due to:

- Loss of state aid, and
- High pension and other post-employment benefit (OPEB) costs.

The district's faith and credit pledge secures the bonds, with the New York State Aid Intercept Program providing additional security.

Homer Central School District serves an estimated population of 12,500 and is located about 30 miles south of Syracuse. The school district is primarily rural-residential in nature, with residents finding employment opportunities in the nearby Syracuse, Binghamton, and Ithaca areas, all of which are within 40 miles. District income levels are strong, in our opinion, with median household effective buying income at 110% of the national level. Market value has remained largely stable since 2010, totaling $793 million in fiscal 2013, which we consider strong at $63,600 per capita.

The district projects enrollment of 2,185 students for school year 2013-2014, which is similar to levels observed since 2010. Management projects enrollment to decline by about 1% annually in five years.

In our view, district finances are strong, despite budget deficits in two of the past three audited fiscals. This includes a $1.28 million deficit in fiscal 2012, due to lower state and federal aid. The district reported balanced operations in fiscal 2013, following a $1 million transfer from its debt service reserve fund (DSRF), which held $9.1 million as of year-end 2013. The general fund balance stood at $9.5 million as of fiscal year-end, or a very strong 26% of expenditures, versus $9.8 million, or a very strong 28.8% of expenditures, in fiscal 2009. Of the total general fund balance, $5 million was reserved for workers' compensation and employment benefits, $2.2 million was unassigned, $806,000 was assigned, and $929,000 was restricted for capital reserves. State aid is the district's major revenue source, accounting for 54% of fiscal 2013 general fund revenues, while property taxes accounted for 36% of total revenues.

Officials have adopted a $38.7 million general fund budget for fiscal 2014; this includes a $2 million appropriation from the DSRF, although we understand they do not intend to use the full amount. They expect to end fiscal 2014 without using general fund reserves due to expenditure control measures and steadily increasing state aid. Officials have raised DSRF levels over many years by transferring surplus funds, mainly from the general fund. The fund does not contain any monies from bond proceeds.

Standard & Poor's considers Homer Central School District's management practices "good" under its Financial Management Assessment (FMA) methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them.

We consider the district's overall net debt burden very low at $760 per capita, or 1.2% of market value, net of 95% state reimbursement on outstanding debt service. Carrying charges are 12%, which we consider moderate. Amortization is rapid, with officials planning to retire 95% of outstanding debt over 10 years. District officials are also planning to issue $21 million for facilities improvements, assuming voters approve a referendum on Dec. 12, 2013. However, we believe the debt burden will remain at a low-to-moderate level, given the significant state building aid received for debt service.

The district participates in state-administered retirement systems, having contributed $2.2 million in fiscal 2013. The district also contributes to an OPEB plan, funded on a pay-as-you-go basis. Most recently, in 2013, the district contributed $1.4 million to its OPEB obligation. As of the most recent valuation date -- June 30, 2013 -- the district's unfunded actuarial accrued liability was $37.9 million. Combined pension and OPEB contributions represent about 9.3% of the district's total fiscal 2013 government expenditures.

Outlook

The stable outlook reflects our opinion that the district will continue to make necessary budgetary adjustments to maintain current reserve levels. The outlook also reflects our view of the district's location in central New York, which provides additional economic stability. If mismatched revenue to expenditure ratios persist, leading to declining reserves, we could lower the rating. We do not expect to raise the rating within the two-year outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

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