

# RatingsDirect®

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## Summary:

# Homer Central School District, New York; School State Program

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## Summary:

# Homer Central School District, New York; School State Program

### Credit Profile

US\$8.68 mil sch dist rfdg bnnds ser 2016 due 03/15/2024

<i>Long Term Rating</i>	AA-/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New

#### Homer Cent Sch Dist

<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long term and underlying ratings to Homer Central School District, N.Y.'s 2016 general obligation (GO) school district refunding serial bonds and affirmed its 'AA-' ratings on the district's existing GO debt. The outlook on all ratings is stable.

The underlying rating reflects the underlying credit quality of the district itself, which is higher than the state program rating of 'A/Stable'.

The rating reflects our opinion of the district's general creditworthiness, including its:

- Access to jobs in the Syracuse, Ithaca, and Binghamton metropolitan statistical areas (MSAs), contributing to good incomes;
- Good management practices supporting strong reserves despite five consecutive drawdowns; and
- Low overall debt burden, coupled with rapid amortization.

We believe what we consider high retirement costs, in addition to market value per capita at only \$65,000 per capita, constrain the rating.

The district's faith-and-credit-GO pledge secures the bonds. The New York State Aid Intercept program (A/Stable) under Section 99-b of local finance law provides additional bond security since the district meets the eligibility requirement of maintaining at least 1x state aid-to-maximum annual debt service (MADS) coverage. We understand officials intend to use series 2016 bond proceeds to refund the district's series 2006 and 2009 bonds for net present value savings. There will be no extension of maturities.

## Economy

Homer Central School District serves an estimated population of 12,361. Median household and per capita effective buying incomes in the district are good at 108% and 100% of national levels, respectively. Market value totaled \$802.0 million in 2016, which we consider strong at \$64,880 per capita. Assessed value (AV) grew by a total of 0.7% since

2014 to \$798.6 million in 2016. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 7.7% of AV.

Homer Central School District encompasses approximately 176 square miles in four counties in Upstate New York about 30 miles south of Syracuse. The school district is primarily rural-residential, with residents finding employment opportunities in the nearby Syracuse, Binghamton, and Ithaca MSA, all of which are within 40 miles. The district's largest employers are the State University of New York at Cortland (2,000 employees), PAL Trinity (500), and Wal-Mart (300). The district spans four counties whose unemployment rates either mirror, or trend lower than, the state and national averages of 4.9% and 5.0%, respectively, in November 2015.

The district provides K-12 education in five facilities to approximately 2,016 students, down 6.9% from 2,165 in 2011-2012. District officials indicate enrollment is stabilizing and will fall only an additional 0.7% to 2,000 by 2020-2021. Enrollment, however, has little effect on state aid.

### **Finances**

The district's available fund balance of \$2.2 million (which consists of the assigned and unassigned general fund balance) is good, in our view, at 5.9% of general fund expenditures at fiscal year-end (June 30) 2015. It reported a deficit operating result at 4.5% of expenditures in 2015. The district depends primarily on state aid for general fund revenue (54.8%), followed by property taxes (36.9%), which are guaranteed by the county.

Following four consecutive years of draws on reserves due largely to material state aid cuts during the Great Recession, the district drew down an additional \$1.7 million on general fund reserves in fiscal 2015 for tax stabilization purposes as well as to finance a \$1.3 million transfer for capital to finance renovation and construction projects. The district did not raise the tax levy in fiscal years 2015 and 2016, but did appropriate reserves to balance the budget each of those years. However, after appropriating \$782,000 in the 2015 budget, the appropriation was reduced to \$295,000 in the 2016 budget and management expects to lower it further in future budgets. With less than four months in the current fiscal year, officials indicate they expect to finish 2016 flat as lower-than-budgeted revenues are offsetting lower-than-anticipated expenditures across the board.

The 2015 draw on reserves reduced available fund balance (assigned and unassigned) to \$2.2 million, or a good 5.9% of 2015 expenditures. However, the district also maintains \$5.2 million in restricted reserves, \$3.4 million of which can be made available for operations through simple motion of the board. The remaining \$1.8 million for employee benefit accrued liability is statutorily restricted. When including these reserves restricted for items such as retirement and workers' compensation, available fund balance increases to what we view as a strong 14.9% of expenditures. With the state aid climate in New York improving materially, management is expecting to raise taxes in the future to finance the aforementioned capital projects, so we expect future reserves to remain stable.

### **Management**

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

Management analyzes three years of historical data when drafting the budget, which is reported monthly to the board with actuals. The district maintains a nonrolling five-year capital facilities plan in accordance with state requirements

that identifies capital and maintenance needs, as well as a rolling long-term financial plan that is balanced and projects revenue and expenditures forward five years. The district does not maintain a debt policy that outlines debt limits nor a minimum reserve policy but it follows an investment policy that complies with state guidelines and reports investment performance and holdings to the board in the monthly treasurer's report.

### **Debt**

Overall net debt, including overlapping debt and state building aid, is 1.9% of market value and \$1,216 per capita, which we believe to be low. Amortization is rapid, with 100% of the district's direct debt scheduled to be retired within 10 years, by 2024. Debt service carrying charges were 11.7% of total governmental fund expenditures (excluding capital outlay) in fiscal 2015, which we consider moderate.

The district does not currently have any direct-purchase debt or contingent liquidity risks from financial instruments with payment provisions that change based on the occurrence of certain events. Officials indicate the district could issue an additional \$2 million-\$3 million over the next two-to-three years for renovation and construction projects.

### **Pension and other postemployment benefit liabilities**

In fiscal 2015, the district contributed its required contribution of \$2.9 million, or 6.9% of total governmental expenditures, toward its pension obligations. Also it paid \$1.8 million, or 4.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2015. Combined pension and OPEB carrying charges totaled 11.2% of total governmental fund expenditures in 2015, which we view as high.

The district participates in the New York State Employees' Retirement System (NYSERS) and the New York State Teachers' Retirement System (NYTRS) pension plans; management meets its contractually required contribution each year, as required by state law. We note that after consecutive years of increases, pension costs in New York State are stabilizing. We view the district's pension plans as well funded at 103.6%, based on Governmental Accounting Standards Board Statement No. 68. The district also offers OPEBs in the form of medical and dental insurance to eligible retirees, and it funds OPEB through pay-as-you-go financing. There is currently no ability under state statutes to accumulate assets to fund the future liability. The OPEB unfunded actuarial accrued liability equaled about \$34.3 million at June 30, 2015, the latest valuation.

## **Outlook**

The stable outlook reflects our view of the district's strong reserve levels, guided by strong management practices and policies. Further contributing to rating stability is the district's low debt profile, coupled with rapid amortization. As such, we do not expect to change the rating within the outlook's two-year horizon.

### **Upside scenario**

We could raise the rating should the district return to a pattern of posting operating surpluses that materially increase fund balance, in addition to the strengthening of economic metrics to levels in line with peers at a higher rating.

### **Downside scenario**

We could lower the rating should the district continue to draw down reserves to levels in line with lower rated peers.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### Ratings Detail (As Of March 17, 2016)

Homer Cent Sch Dist GO sch dist rfdg (serial) bnds

<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
Homer Cent Sch Dist GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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