

CREDIT OPINION

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New Issue

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Sayville Union Free School District, NY

New Issue - Moody's Upgrades Sayville UFSD's (NY) GO to Aa1; Assigns Aa1 to GO Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to the Sayville Union Free School District's (NY) \$13.5 million School District Refunding (Serial) Bonds, 2016. Concurrently Moody's has upgrades to Aa1 from Aa2 rating on \$26.8 million of parity general obligation debt, including the current offering.

The Aa1 rating reflects the stable tax base with below average wealth levels, well managed financial position with satisfactory reserves, and elevated debt burden with average payout.

Credit Strengths

- » Conservative budget practices with prudent management
- » Stable tax base

Credit Challenges

- » Elevated debt burden
- » Tax base value decline

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Material growth in tax base and wealth levels
- » Reduction in debt burden

Factors that Could Lead to a Downgrade

- » Structural imbalance resulting in declines of reserves and liquidity
- » Declines in taxable values
- » Significant increases in debt burden

Key Indicators

Exhibit 1

Sayville Union Free School District, NY	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,396,832	\$ 2,322,292	\$ 2,160,041	\$ 2,113,669	\$ 2,112,820
Full Value Per Capita	\$ 140,248	\$ 131,896	\$ 122,326	\$ 119,497	\$ 119,449
Median Family Income (% of US Median)	176.7%	181.1%	192.2%	192.0%	192.0%
Finances					
Operating Revenue (\$000)	\$ 76,436	\$ 80,077	\$ 83,912	\$ 83,553	\$ 84,503
Fund Balance as a % of Revenues	30.3%	33.0%	33.0%	30.6%	30.2%
Cash Balance as a % of Revenues	33.2%	36.8%	39.9%	37.5%	36.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 38,245	\$ 41,812	\$ 37,556	\$ 33,349	\$ 29,668
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.4x	0.4x	0.4x
Net Direct Debt / Full Value (%)	1.6%	1.8%	1.7%	1.6%	1.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	1.0x	1.2x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.9%	4.0%	4.6%	4.9%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Mature Tax Base with Strong Wealth Levels

The \$2.1 billion tax base has stabilized after several years of property value declines. The district is located in Suffolk County (A3 negative) and services unincorporated areas of Sayville and West Sayville with a population of 22,500. The district includes a strong local employment base and benefits from its proximity to New York City (Aa2 stable). The primarily residential tax base has experienced several years of declines in full value averaging an annual growth rate of negative 4.9% (2011-2015). Officials report modest improvements in the areas real estate market, and anticipate tax base values will remain stable in the mid-term. Favorably, wealth levels are well above the state and national average with median family income (176% and 192%,) respectively. County unemployment rate of 4.0% is low when compared to the state's 5.0% and nation's 5.1% rate as of July 2106.

Financial Operations and Reserves: Healthy Financial Position With Sound Fiscal Management

Sayville UFSD's strong financial position will remain healthy given sound fiscal management with conservative budget practices. The district has consistently maintained strong reserve levels over the last five years, and ended fiscal 2015 with a surplus increasing General Fund balance to 30.2% of revenue; notably the fifth surplus over a six year period. Officials had anticipated drawing on reserves, however, given conservative budgeting of revenues and expenditures fully replenished the appropriation and added to fund balance. Operations are supported primarily from stable property taxes (68.7%) and state aid (28%) revenues that are sensitive to cutbacks. The primary expenditures are instruction and support services representing 52.7% and 36% of fiscal 2015 expenditures, respectively.

For fiscal 2016, the approved budget decreased by 0.72% from fiscal 2015 and includes a \$2.1 million fund balance appropriation and a 1.76% levy increase. The district projects a \$507,000 surplus at the end of fiscal 2016 driven by stronger revenues than budgetted. For fiscal 2017, the district anticipates continued cost savings from reductions in healthcare costs as it transitioned from self-insured to a state offered healthcare plan in July 2015 as well as declines in annual pension contribution. These costs savings are expected to alleviate pressures from rising fixed costs that the district has experienced in recent years. District officials expected stable if not increasing fund balance in fiscal 2017 through conservative budgeting.

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.

LIQUIDITY

The district benefits from a highly liquid fund balance, and is expected to remain sound. Net cash was \$30 million (36.5% of revenues in fiscal 2015).

Debt and Pensions: Average Debt Profile With Rapid Payout

The district's direct debt burden of 1.7% of full value is expected to remain manageable given rapid principal payout of 82% (within 10-years). The overall debt burden increases to 3.1% when factoring in the overlapping debt of the local municipalities. Management anticipates issuing \$20 million in new debt over the mid-term. Although the issuance would increase debt burden to a higher 2.63% of full value, the district's debt profile will remain manageable given strong management with well-developed capital plans.

DEBT STRUCTURE

All debt is fixed rate and amortized over the long term.

DEBT-RELATED DERIVATIVES

The district has no derivative agreements.

PENSIONS AND OPEB

Pensions have been a moderate source of pressure for the district, but are expected to remain manageable given prudent budgetary controls. State Teachers Retirement System, two multi-employer, defined benefit retirement plans sponsored by the State of New York (GO rated Aa1/stable). The district's combined annual required contribution (ARC) for the plans totaled 8.7% of 2015 General Fund expenditures. The district's 3-year average combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, totaled \$102 million or approximately 1.22 times General Fund revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. 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.

The district also provides employees with Other Postemployment Benefits (OPEB) and as of the last actuarial date (06/30/2015), had an unfunded actuarial liability of \$105.8 million. The amount paid during 2015 by the district was \$9.4 million (or 42.6% of annual OPEB cost). Total fixed costs for 2015 including pension, OPEB and debt service totaled \$16.6 million or a high 19.6% of General Fund expenditures.

Management and Governance

Sayville UFSD has a long history of strong management reflective in the healthy reserves and liquidity over the last five years.

New York school districts have an institutional framework score of "A" or moderate. Revenues are almost totally comprised of local property taxes and state aid, which is determined by a state funding formula. The state limits the annual growth in the school district property tax levy to the lower of 2% or the rate of inflation. School district property tax revenue is highly predictable given that full collection is guaranteed by counties and towns expenditures are also relatively predictable, although strong collective bargaining groups make it difficult to reduce personnel expenses.

Legal Security

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

Use of Proceeds

Proceeds will refund the district's outstanding School District (Serial) Bonds, 2008 and 2010 for a net present value savings of \$1.3 million or 7.8% of refunded par with no extension of maturity and level savings.

Obligor Profile

Sayville Union Free School District services a population of 18,580 in unincorporated Sayville and West Sayville within Suffolk County (NY).

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Sayville Union Free School District, NY

<u>Issue</u>	<u>Rating</u>
School District Refunding (Serial) Bonds, 2016	Aa1
Rating Type	Underlying LT
Sale Amount	\$13,515,000
Expected Sale Date	10/19/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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