

## CREDIT OPINION

10 June 2016

Update

Rate this Research >>

### Contacts

Benjamin Howard- 212-553-3781  
Cooper  
Associate Analyst  
benjamin.howard-cooper@moodys.com

Tiphany Lee-Allen +1 212 553 4772  
AVP-Analyst  
tiphany.lee-allen@moodys.com

## New Rochelle City School District, NY

Update: Moody's Removes Negative Outlook on New Rochelle CSD, NY; Affirms Aa2 GO Rating

### Summary Rating Rationale

Moody's Investors Service has affirmed the Aa2 rating on New Rochelle City School District, NY's \$53.6 million in outstanding general obligation debt. At this time, Moody's has removed the negative outlook.

The Aa2 rating reflects the district's substantial tax base, above average socioeconomic indicators, and reserve levels below what is typical for the rating category.

### Credit Strengths

- » Sizeable tax base
- » Conservative budgeting practices
- » Large scale development with the potential to expand the tax base

### Credit Challenges

- » Limited reserves
- » Large capital improvement needs

### Rating Outlook

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

### Factors that Could Lead to an Upgrade

- » Continued structural balance leading to a substantial increase in reserves
- » Improvements in the socio economic indicators

### Factors that Could Lead to a Downgrade

- » Failure to achieve projected increases in fund balance
- » Deterioration of the tax base and wealth indicators

## Key Indicators

Exhibit 1

<b>New Rochelle City School District, NY</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 10,539,316	\$ 9,516,096	\$ 9,204,570	\$ 9,064,120	\$ 10,028,759
Full Value Per Capita	\$ 137,940	\$ 123,467	\$ 118,280	\$ 115,502	\$ 127,794
Median Family Income (% of US Median)	N/A	127.6%	127.6%	127.6%	127.6%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 216,805	\$ 221,309	\$ 226,284	\$ 236,101	\$ 240,957
Fund Balance as a % of Revenues	6.3%	5.5%	4.3%	4.5%	4.4%
Cash Balance as a % of Revenues	15.8%	16.1%	15.0%	14.9%	15.7%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ -	\$ -	\$ -	\$ -	\$ 68,415
Net Direct Debt / Operating Revenues (x)	N/A	N/A	N/A	N/A	0.3x
Net Direct Debt / Full Value (%)	N/A	N/A	N/A	N/A	0.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.9x	1.5x	1.6x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	2.2%	3.7%	4.2%	4.0%

Source: Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Sizeable Tax Base; Large Scale Development Projects Expected Over the Medium-Term

Despite recent full value reductions due to a weak housing market and tax certiorari claims among top tax payers, the district's tax base is expected to stabilize over the near term due to its strategic location, approximately 15 miles from Manhattan, in the southern portion of Westchester County (Aa1 stable). Full valuation had decreased by a cumulative 30% over the five year period through 2014. However, the district reports that tax certiorari claims have fallen precipitously, and housing prices have begun to recover. In fiscal 2015, the full value jumped 11% to \$3 billion, indicating stabilization in the tax base. Looking forward, Moody's projects that the district's full value will experience continued growth due to a number of significant developments and infrastructure projects.

The City of New Rochelle (Aa3 positive) has entered into a public private partnership with Renaissance Downtown and RXR Realty to undertake a ten-year downtown revitalization project. The city has rezoned 300 acres of downtown New Rochelle to accommodate 10 million square feet of new construction. The plans include a mix of residential (5,500 units), commercial, and hotel space. The city has already completed the bulk of the zoning, pre-study and permitting processes, delivering parcels to the developers shovel ready. The first development of the downtown revitalization project includes 280 apartment units and is scheduled to break ground by November 2016. Each development project will initially seek a 10+ year PILOT agreement, after which the properties will be included on the tax rolls. The city anticipates an additional \$80 million in additional tax revenues (of which 66% goes to the district) when the development is complete. Developers are also responsible for a one-time \$100 million infrastructure payment that will be shared between the city and school district. The district has conducted an enrollment projection study and expects a manageable increase of 312 students from the new development. The increased enrollment will be cost neutral to the district, as new developments are subject to a "fair share mitigation fee" which allocates a cost per pupil expense and any cost related to capital construction due to the enrollment increases.

In Spring of 2016, the Metropolitan Transit Authority (MTA rated Aa2 stable) announced funding for an expansion of Metro North service from New Rochelle into Pennsylvania Station in Manhattan. New Rochelle will serve as the only station in the MTA's Metro North system that will provide direct access to either Grand Central Terminal or Pennsylvania Station. We expect that the infrastructure upgrade, in conjunction with the redevelopment plans for downtown will serve as a major economic boost for the city and the district. Moody's will continue to monitor the effect of the downtown development project and MTA spur on the city's full

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.

value. Declines in the tax base due to development projects not coming to fruition, or continued pressure from tax certiorari claims will cause negative rating pressure during the next review.

### **Financial Operations and Reserves: Diminished Reserves Projected to Recover**

Despite recent draws on reserves, the New Rochelle City School District's financial position will stabilize in the near term. From fiscal 2005 through 2012, the district's reserve levels remained within a range between 7-10% of revenues, however General Fund reserves dropped below that range to a narrow 4.5% of revenues in fiscal 2014.

The primary reason for recent reductions in financial flexibility are ongoing tax certiorari claims that have required significant payouts and have pressured revenue raising abilities. To manage through the associated budgetary pressure, the district issued \$5 million of GO bonds in fiscal 2010 and fiscal 2015 to fund its tax certiorari reserve.

A new management team was hired in fiscal 2015. The team has previously demonstrated success in rebuilding the financial profile of distressed districts. Management inherited the fiscal 2015 budget, which included a \$3.9 million fund balance appropriation. However, the district was able to replenish those funds by the end of the year through strict expenditure control. At the end of fiscal 2015 the district held \$15 million in general fund balance (6.3% of revenues), inclusive of the proceeds from \$5 million tax certiorari bond. Unassigned fund balance rose to \$7.5 million, or 3.1% of revenues from \$6 million, or 2.3% of revenues in fiscal 2014. Moving forward, management has indicated that they plan on producing balanced budgets without the use of appropriated fund balance. The district is predominantly supported by property taxes which comprised 82% of revenues, followed by state aid which accounted for an additional 14% of revenues in fiscal 2015.

In fiscal 2016, the first full fiscal year under new management, the district increased their expenditures by 1.9% and balanced the budget without the use of fund balance and a 1.99% tax levy increase. The district projects that they will end the fiscal year with an operating surplus that will bring their unassigned fund balance to around 4%. Failure to produce the surplus and additional reserves in the fiscal 2016 audit could lead to negative rating pressure.

Looking forward, the fiscal 2017 budget includes a 1.42% increase in spending, balanced with a 1.1% levy increase, within the state cap. As in fiscal 2016, the district produced a balanced budget without appropriated fund balance and expects to end the year with additional reserves. The ability to sustain structural balance and maintain adequate financial flexibility over the near term will be a significant factor during future rating reviews.

### **LIQUIDITY**

The district's liquidity position provides a moderate degree of financial flexibility. Cash totaled \$37 million, or 15.7% of revenues, in fiscal 2015. The district has indicated that they do not plan to issue cash flow notes in the near term, as they have returned to structural balance and begin to rebuild reserves. Moody's will monitor the district's liquidity position, with declines likely to cause negative rating pressure.

### **Debt and Pensions: Manageable Debt Burden and Low Fixed Costs**

The district's direct debt burden of 0.7% of full value will remain stable in the near term given planned future issuance timed to begin when debt service on outstanding bonds tapers off. Overall debt burden remains a manageable 1.9% when overlapping debt and state aid is taken into account. Amortization of principal is rapid, with 100% retired within ten years. Debt service for the district comprised a manageable 3.9% of fiscal 2015 Operating Fund expenditures. Total fixed costs, including debt service, pensions and OPEB, accounts for approximately \$36.3 million, or an average 15% of total Operating Fund expenditures.

The district recently approved a \$106 million capital bond project to address urgent infrastructure needs, that is expected to go to market in 2016. The district's five year Building Condition Survey (BCS) found that all ten of the district's buildings were rated unsatisfactory and in need of repair. The district will be supported by a state building aid ratio of 48.7%, lessening the debt burden associated with the capital improvement project.

### **DEBT STRUCTURE**

All of the district's debt is fixed rate.

### **DEBT-RELATED DERIVATIVES**

The district is not party to any derivative agreements.

#### PENSIONS AND OPEB

The district participates in the New York State Teachers Retirement System (TRS) and the New York State and Local Employees Retirement System (ERS), two multi-employer, defined benefit retirement plans sponsored by the State of New York (GO Aa1 stable). For fiscal 2015, employer contributions to the plans totaled \$21.9 million, or an average 9% of general fund expenditures. The district does not amortize pension payments.

The district's three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$396.2 million, or an elevated 1.64 times operating 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.

Fiscal 2015 OPEB contributions of \$5.2 million accounted for only 2% of general fund expenditures. The district's reported OPEB liability is \$42.8 million as of fiscal 2015.

#### Management and Governance

In 2015 a new management team came in with the mandate to repair the district's finances and infrastructure. The superintendent and assistant superintendent for business and administration have demonstrated experience with rebuilding the finances of distressed districts.

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, in addition to certain exclusions. Districts can exceed the cap with 60% of 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.

#### Legal Security

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

#### Use of Proceeds

Not applicable

#### Obligor Profile

New Rochelle City School District is located in Westchester County, 3 miles north of New York City and has a population of 78,476. The district offers comprehensive educational programs for students in kindergarten through twelfth grade. Enrollment for the 2015-2016 school year was 10,992.

#### Methodology

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

© 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's.com](http://www.moody's.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 1030579

## Contacts

Benjamin Howard-Cooper  
Associate Analyst  
benjamin.howard-cooper@moodys.com

212-553-3781

Tiphany Lee-Allen  
AVP-Analyst  
tiphany.lee-allen@moodys.com

+1 212 553 4772

## CLIENT SERVICES

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