

RatingsDirect®

Summary:

Regional School District No. 9, Connecticut; General Obligation

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Table Of Contents

Rationale

Outlook

The Member Municipalities

Summary:

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Credit Profile

US\$4.83 mil GO bnds, iss (Bnk Qual) ser 2016 due 10/01/2036

<i>Long Term Rating</i>	AAA/Stable	New
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Regl Sch Dist #9 GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Regional School District No. 9, Conn.'s series 2016 general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the district's existing GO debt.

Officials plan to use series 2016 bond proceeds to refinance the district's bond anticipation notes (BANs) outstanding, maturing on Oct. 5, 2016. The bonds are a GO pledge of, and payable from, sums annually apportioned to the towns of Easton and Redding, the district's two member towns, in accordance with Chapter 164 of Connecticut General Statutes. We understand the district cannot levy taxes directly.

The district annually adopts an operating budget, including debt service costs, for the ensuing fiscal year. The amounts apportioned to member towns are in proportion to the number of pupils attending the school from each town. Once member towns vote on and approve the budget, it becomes final. The communities are then responsible for paying assessments in a timely manner.

Since all primary district revenue consists of apportioned costs received by member towns, the long-term rating on the district reflects our opinion of the two member communities' general creditworthiness.

We rate the district higher than the sovereign because we believe the district can maintain better credit characteristics than the nation in a stress scenario based on its predominantly locally derived revenue base, coupled with our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention.

Factors supporting the rating include our opinion of the member towns' general creditworthiness and the district's:

- Extremely strong per capita market value and per capita and median household effective buying incomes,
- Strong statutory budgeting procedures,
- Consistent operating performance and stable expenditure profile, and
- Moderate-to-low debt after accounting for the underlying debt of its member communities.

The district provides ninth- through 12th-grade educational services for Easton and Redding students. The district operates a high school that had a yearly student enrollment of 998 for the 2015-2016 school year. Officials are projecting student enrollment will decline slightly to 899 in school year 2018. The district's underlying property tax

base was \$2.9 billion in fiscal 2015 with a total market value equivalent to a very strong \$4.2 billion, or an extremely strong \$244,000 per capita.

The district derives almost all revenue for capital and operating costs from the participating towns with federal and state grants providing some revenue. On a total budget of \$23.3 million for fiscal 2017, district officials apportioned Redding \$12.3 million, or 52.8%, of capital and operating costs and apportioned Easton \$11 million, or 47.2%. The towns make biweekly payments to the district throughout the year; therefore, we believe district liquidity is sufficient to meet ongoing expenditures throughout the fiscal year.

The district's finances have been consistently sound, in our opinion. State statute restricts the amount school districts can carry in the unreserved general fund balance. According to Connecticut statute, regional schools can maintain 1% of fund balance for nonrecurring capital purposes. The schools generally return excess fund balance to member towns or appropriate the money for the following year's budget.

The district finished fiscal 2015 with a slight 0.8% surplus due largely to lower-than-expected expenditures. Officials balanced the fiscal 2016 budget, which estimates have producing at least break-even operations with any surplus transferred into capital reserves. Historically, the district has closed with break-even operations after transferring surplus into the nonrecurring capital fund. Salary costs and tuition payments, typically known and budgeted ahead of time, are the district's largest expenditures.

The budgeting process begins in December, and officials finalize the budget by the second week of May following a plurality vote of each member towns' electorate. Both communities passed the fiscal 2017 budget without incident.

If a member town fails to include the amount necessary to pay its proportionate share of the district's annual budget in its annual town budget, there are strong statutory procedures that would allow the district to petition to the superior court to determine the alleged deficiency. If a deficiency were to exist, the court would order the town to provide funds in an amount equal to the deficiency, combined with a sum of money equal to 25%. As stated in the statute, the town would pay the deficiency immediately, provided funds are available; town management would keep the additional sum in a separate account and put it toward the ensuing budget. Moreover, if a member town were to withdraw from the district, under provisions of Section 10-63f of Connecticut General Statutes, the withdrawal does not have an effect on the town's obligation to district bondholders.

Based on a review of several key financial practices, we consider the district's financial management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Management provides the school board with monthly budget and investment holdings reports. The district has a multiyear capital improvement plan that it updates annually at budget time. However, there are no formal debt management plans. The district does not perform any formal long-term financial planning.

As of June 30, 2015, direct debt totals approximately \$16 million. When factoring in overlapping debt of the member communities, overall net debt totals \$64 million and a moderate \$3,705 per capita, or a low 1.5% of market value. Debt service carrying charges have averaged 9.4% of expenditures over the past four fiscal years, which we view as moderate. Amortization of principal debt is rapid with officials planning to retire about 84% over 10 years and 100%

over 20 years.

The district's teachers and administrators participate in the Connecticut Teachers' Retirement System, to which the district does not contribute. Other noncertified employees participate in the district's retirement plan, a single-employer, defined-benefit plan that was 83% funded as of July 1, 2015. The defined benefit plan was closed to new employees as of July 1, 2015 and was replaced by a defined contribution plan for new employees. The district's contributions to the system during the past three fiscal years have been greater than 100% of the annual required contribution (ARC). In fiscal 2015, the district's payment totaled \$440,000, or 1.4% of total governmental expenditures.

The district also provides other postemployment benefits (OPEB). As of the July 1, 2014, actuarial valuation, the OPEB liability was \$4.8 million. The district funds OPEB on a pay-as-you-go basis. The ARC in fiscal 2015 was \$285,262. The district's actual payment in fiscal 2015 was \$65,575, or 23% of the ARC. Combined, these payments represented 1.6% of total governmental fund expenditures.

(For more information on the member towns, please see the most recent analyses, published Jan. 5, 2015, for Easton and Feb. 12, 2016, for Redding on RatingsDirect.)

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the very strong, diverse property tax bases and strong economic fundamentals of the district's respective member towns. Due to its historical operations, we believe the district should maintain an adequate financial profile within the next two fiscal years. We also expect debt to remain moderate due to the district's limited capital needs and rapidly amortizing debt. For these reasons, we do not expect to change the rating within the two-year outlook period.

We could lower the rating if any member municipality were to demonstrate an inability or unwillingness to pay a significant share of its apportionment under the district agreement and if district finances were to fall below levels we consider commensurate with its 'AAA' rated peers.

The Member Municipalities

Since we consider payments from member municipalities necessary for the district to pay debt service, we have taken into account the credit profiles of the district's member municipalities, which we consider as having, at least, very strong capacity to meet their financial commitments.

The member municipalities are characterized by:

- Very strong economies, with very strong wealth indicators;
- Strong budgetary performance, with balanced operating results;
- Strong budgetary flexibility;
- Adequate-to-strong management conditions, with good financial policies;
- Strong-to-very-strong liquidity, providing very strong available cash to cover debt service and expenditures;
- Very strong debt and contingent liability positions; and

- Very strong institutional framework scores.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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