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Summary:

Lafayette Central School District, New York; School State Program

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Credit Profile		
US$3.55 mil GO sch dist rfdg (serial) bnds ser 2015		
Long Term Rating	AA-/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Lafayette Cent Sch Dist GO		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term and underlying ratings to Lafayette Central School District, N.Y.'s 2015 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA-' rating on the district's existing GO debt. The outlook for all ratings is stable.

The long-term rating reflects our view of the district's:

- Rural and residential nature, enhanced by participation in the Syracuse metropolitan statistical area;
- Strong income levels and property values;
- Strong total fund balance in fiscal 2015, with projected improvement in fiscal 2016; and
- Very low overall net debt burden when state aid is factored in.

The district's bonds are secured by the district's faith-and-credit GO pledge. The New York State Aid Intercept Program, under Section 99-b of the state's finance law, provides additional bond security. District officials indicated bond proceeds will be used to refund the district's 2005, 2005A, and 2005B bond series.

Lafayette Central School District (estimated population: 4,925) spans 39 square miles in Onondaga County in central New York State. The district is residential and rural in nature, and encompasses a portion of the Onondaga Native American Reservation. Residents have easy access to employment opportunities in Syracuse, 10 miles to the north. As a result, income levels are what we consider strong, with median household and per capita effective buying income at 124% and 121%, respectively, of the national average. The county's unemployment rate has continued to trend downward, and is 4.7% as of August 2015, below the state and national rates for that period. Property values have experienced slight declines in recent years; however, we still consider market value per capita strong at $62,935. We understand property values are stabilizing. The district's 10 leading taxpayers account for 15.9% of assessed valuation (AV), which, in our view, indicates a diverse tax base. The leading taxpayer is Tennessee Gas Pipeline, at 5% of total AV. Enrollment in the district's three school facilities (including the Onondaga Nation School) is projected to remain stable at about 900 students over the next few years.

The district's financial position has stabilized after a significant drawdown in fiscal 2011 that left the district with negative available reserves of $239,000, or 1.2% of expenditures. The $2.3 million drawdown was due to the underbudgeting of capital expenditures. The district's fiscal 2015 budget totals $22.1 million and includes a $550,000 fund balance appropriation, in line with historical practice. The district ended fiscal 2015 with a $230,000 surplus. However, after a transfer out to the school lunch fund and the special aid fund, the district ended the year with a slight deficit of $174,000. Savings via attrition for certain salaried positions and reduced pension assessments are the primary sources of the 2015 general fund surplus. Management expects to continue building the district's unassigned fund balance toward the state comptroller's limit of 4% of expenditures.

In fiscal 2015, the district's total general fund balance was $3.06 million, or a very strong, in our view, 15.0% of expenditures, of which $983,000--or a good 4.8% of expenditures--was assigned or unassigned. The district funds several reserves, including employee retirement contribution, liability, and unemployment insurance reserves, which could be appropriated for those purposes by board action. These restricted reserves totaled $2.1 million at the close of fiscal 2015 (or 10% of expenditures). In addition, the district maintains $824,000 (4% of expenditures) in a restricted debt service reserve, outside the general fund.

For fiscal 2016, the district's adopted budget totals $22.4 million, is in line with the state's 2% levy cap, and once again includes a fund balance appropriation of about $550,000. We understand the district aims to reduce its reliance on the fund balance in hopes of further stabilizing the budget. The district also expects to realize salary expense savings via retirements in fiscal 2016, coupled with reduced retiree insurance contributions. District management reports that the district is performing well, with an early expectation to end with a positive balance.

Given the recent trend in district finances and management's projections for fiscal 2016, we believe the district's financial performance has stabilized, and that its financial position should continue to improve in the next two fiscal years. In 2013, the district moved from a half-time to a full-time business administrator, and it added a treasurer to help with accounting for the Onondaga Nation School--which has also contributed to the district's improved finances. The district's leading revenue sources are state aid (which has been stable in recent years) and property taxes, at 58% and 28%, respectively. The school district is remitted 100% of its property taxes by the county, and is thus guaranteed the current-year tax levy.

Standard & Poor's considers Lafayette Central School District's management practices "standard" under its financial management assessment (FMA) methodology. An FMA of "standard" indicates the finance department maintains policies and practices in some, but not all, key areas. The district is generally conservative in its revenue and expenditure assumptions, enhanced by management's five-year, long-term financial planning. We understand it formally presents monthly budget-to-actual performance results to the board, including an Onondaga Nation School representative. District officials indicate their goal is to continue to restore the unassigned fund balance, in line with the state comptroller's recommended 4% of expenditures; as such, they expect to do so within the next five fiscal years.

After this issue, the district will have $7 million in overall net debt outstanding, including its proportionate share of overlapping debt, and net of $21.8 million in estimated state building aid reimbursement. On a direct debt basis, the district has about $7.3 million in GO long-term debt and $12.5 million in GO bond anticipation notes (BANs) outstanding. As a result, we consider the district's overall net debt burden low, at $1,395 per capita and 2.2% of market value. Debt service carrying charges were also what we consider low in fiscal 2015, at 6.7% of governmental expenditures. Amortization is rapid, with officials planning to retire 96% of debt outstanding in 10 years, and the remainder by 2025. We note this calculation excludes the district's BAN issue. We believe once the BANs are permanently financed the district's 10-year amortization will decline from its current level. The district also regularly issues revenue anticipation notes (RANs) in June of each year to make its payments to the Onondaga Nation School while awaiting state aid reimbursements (RAN issuance in fiscal 2015 totaled $5 million). We consider RANs to be self-supporting and thus they do not materially affect the district's debt ratios. We do not expect this issuance or the permanent financing of the BANs to have a significant material impact on the district's debt ratios, given that all debt is currently factored in our ratios.

The district makes its full annual required contribution (ARC) to the New York State retirement systems each year. Fiscal 2015 contributions totaled $1.7 million, or 7.2% of governmental expenditures. The district also funds its other postemployment benefit (OPEB) obligation on a pay-as-you-go basis, as state statute does not permit the funding of OPEB trusts at present. Fiscal 2015 contributions totaled $774,000, representing 54% of the ARC and 3.1% of expenditures. The district's unfunded liability was $17.7 million as of June 30, 2015. Combined fiscal 2015 pension and OPEB contributions totaled $2.5 million, or 10.4% of governmental fund expenditures. Given the strong funded ratio of the state retirement systems, we expect pension cost assessments to either stabilize or decline in the next two-to-three fiscal years.

Outlook

The stable outlook on the long-term rating reflects our opinion of the district's improving financial position after a significant drawdown in fiscal 2011. The outlook further reflects our expectation that management will continue to actively maintain stable operations over the next two years, which should yield growth in the unassigned fund balance. While the district anticipates additional debt issuance for capital projects, we believe the impact on the district's budget will be minimal given the expected state building aid reimbursement rate.

Upside scenario

Upward rating potential within the two-year outlook period is limited, in our view, given the recent deterioration in financial performance and reserve position. However, if the district's economic metrics improved significantly, and management is able to maintain total fund balance levels above 15% while mitigating the impact of high pension and OPEB costs, we could raise the rating.

Downside scenario

If the district is unable to sustain structurally balanced operations and available reserves decline significantly, we could lower the rating.

Related Criteria And Research

Related Criteria

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

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