

Regional School District No. 9, Connecticut

Credit Profile

US\$5.66 mil GO bnds ser 2010 due 05/15/2013

Long Term Rating

AAA/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to Regional School District No. 9 (Easton & Redding), Conn.'s series 2010 general obligation (GO) refunding bonds.

The bonds are a GO pledge of, and payable from sums annually apportioned to, the towns of Easton, Conn. and Redding, Conn. in accordance with Chapter 164 of the Connecticut General Statutes. It is our understanding the school district does not have the ability to levy taxes directly. The district annually adopts an operating budget, including debt service costs, for the ensuing fiscal year. The amounts apportioned to the member towns are in proportion to the number of pupils attending the school in each town. Once the member towns vote on and approve the budget, it becomes final; and the communities are then responsible for paying assessments on a timely basis.

Since the district's primary revenues are apportioned costs received by the member towns, the district's long-term rating reflects our opinion of the general creditworthiness of the two member communities.

In our opinion, factors that support our assessment of the long-term rating include:

- The very strong household income levels and per capita market values of the district's member communities,

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- The school district's consistent operating performance and stable expenditure profile, and
- The district's moderate-to-low debt burden after accounting for the underlying debt of its member communities.

It is our understanding officials plan to use bond proceeds from this issuance to refund the district's 2000 bonds outstanding.

Regional School District No. 9 provides ninth- through 12-grade educational services for Easton and Redding students. The district operates a high school with a yearly student enrollment of roughly 977. The district derives all of its revenues for capital and operating costs from participating towns. Some revenues come from federal and state grants. For fiscal 2010, Redding was apportioned \$11.1 million (54%) of capital and operating costs while Easton was apportioned \$9.4 million (46%) on an overall budget of \$23.0 million.

The district's financial performance has been consistently sound, but state statutes place restrictions on the amount school districts can carry in the unreserved general fund balance. 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 the member towns.

Based on a review of several key financial practices, Standard & Poor's considers Regional School District No. 9's financial management practices "standard" under its Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Management provides the school board with monthly reports on the budget and investment holdings. The district also has a multiyear capital improvement plan that it updates at budget time annually. There, however, are no formal debt management plans; and the district does not perform any formal long-term financial planning.

Outlook

The stable outlook reflects Standard & Poor's assessment of the strong, diverse property tax base and strong economic fundamentals of the district's respective member towns. We believe the district will maintain an adequate financial profile. We also expect the debt burden to remain moderate due to limited capital needs and rapidly amortizing debt.

Easton

Easton, with a population estimate of 7,400, is a small, rural, affluent community in Fairfield County. The town's own local economy is limited and mainly residential. Nevertheless, we consider its economic indicators extremely strong and stable. Unemployment, at 5.6% as of November 2009, remained below state and national rates. Median household effective buying income is 270% of the national level, and home values are more than four times the national median. The tax base is strong and very diverse. For fiscal 2009, the net grand list totaled \$1.6 billion and state equalized valuation totaled \$2.3 billion. Market values are, in our opinion, an extremely strong \$319,923 per capita. The

10 leading taxpayers — seven of which are residential homeowners — account for less than 5% of the grand list.

In our view, Easton's financial position has been sound with ample reserves available to provide flexibility to manage through the near and intermediate term. For fiscal 2009, the audit showed a slight decrease to the unreserved general fund balance of roughly \$694,000. Despite the decrease, the town closed the fiscal year with a \$4.9 million balance, or, in our view, a strong 13% of expenditures. The property tax levy, which we view as a stable revenue source, accounts for 91% of general fund revenues while state sources account for about 5%. Current-year property tax collections remain healthy, and town officials are projecting a rate above 99%. While not a formal policy, the town has historically managed with operating reserves above 10% of expenditures; and management plans to continue to do so for the near future.

In our view, Easton's overall net debt burden is a high \$6,946 per capita, or a low 2.2% of market value. These figures include the town's portion of debt from Regional School District No. 9. The town's general debt service carrying charge is, in our view, a moderate 11% of total operating expenditures.

Redding

Redding, also in Fairfield County, encompasses roughly 32 square miles. The town's population estimate is 9,072. Household income levels are, in our opinion, a very strong 216% of the national level. Town unemployment averaged 5.1% as of December 2009, also well below state and national rates. Town assessed value mainly consists of residential properties, which account for 73% of the net taxable grand list. The tax base is very diverse with the 10 leading taxpayers accounting for 9% of the \$1.9 billion total net grand list. Moreover, in our opinion, market values are an extremely strong \$316,698 per capita.

Following a \$1.5 million surplus in fiscal 2009, Redding's financial position has improved to, what we consider, good levels. Fiscal 2009 draft audit results showed an ending unreserved general fund balance of roughly \$1.9 million, or roughly 4% of expenditures. The town has historically operated with below-average, yet adequate, financial reserves, which we attribute to the high degree of property taxes the town receives. Property taxes account for 91% of the town's general fund revenues; and property tax collections remain strong and stable, averaging 98%-99% of the levy. Intergovernmental aid accounts for roughly 6% of general fund revenues, so the town is not overly susceptible to state aid pressures. The town's largest expenditure item, accounting for 71% of the budget, is the cost for education.

Redding's overall net debt burden is a moderate \$3,473 per capita, or a low 1.1% of market value. These figures include the town's portion of debt from Regional School District No. 9. The town's general debt service carrying charge is, in our view, a low 4.5% of total operating expenditures.

Related Research

- USPF Criteria: GO Debt, Oct. 12, 2006

- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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