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Summary:

Mattituck-Cutchogue Union Free School District, New York; General Obligation

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Summary:

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Credit Profile

US\$15.94 mil sch dist rfdg (serial) bnds

Long Term Rating

AA/Stable

New

US\$2.565 mil sch dist rfdg (serial) bnds

Long Term Rating

AA/Stable

New

Mattituck-Cutchogue Union Free Sch Dist sch dist (serial) bnds ser 2014 due 06/15/2029

Long Term Rating

AA/Stable

Affirmed

Mattituck-Cutchogue Union Free Sch Dist GO

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating on Mattituck-Cutchogue Union Free School District, N.Y.'s series 2015A and 2015B general obligation (GO) school district refunding bonds. At the same time, we affirmed its 'AA' rating on the district's GO bonds outstanding. The outlook is stable.

The 'AA' rating reflects our view of the district's:

- Affluent residential community, with a stable local economy that participates in Nassau and Suffolk counties' economy;
- Very strong wealth and income and extremely strong market value per capita;
- Strong financial position based on consistent financial performance; and
- Low-to-high debt burden with limited additional capital needs.

The bonds are secured by a faith and credit pledge of the district. We understand that bond proceeds will be used to refund previously issued debt.

Mattituck-Cutchogue Union Free School District, which has a population of 9,259 and covers 24 square miles, operates two schools with a current enrollment of 1,290. It is on the north fork of Long Island in the towns of Riverhead and Southold in Suffolk County. Student enrollment has declined 17% since the 2008-2009 school year; officials expect enrollment to decline slightly over the next two years.

The local economy is a mixture of residential and agricultural areas, with a significant winery business. Many residents work in Nassau and Suffolk counties or commute to the New York City area for employment. Major employers in the district include Plum Island Animal Disease Center (about 360 employees) and Eastern Long Island Hospital (358).

Income levels remain very strong, in our view, with per capita and median household effective buying income at 162% and 151%, respectively, of the national average. The district unemployment rate is not available, but the rate for Suffolk County averaged 5.2% for 2014, below the state and national levels. The district's assessed value has remained stable in the past three years and totaled \$46.6 million in fiscal 2015. Full market value stands at \$3.4 billion, or \$370,986 per capita, which we consider to be extremely strong.

The district has maintained a very stable and strong financial position. Management has consistently funded a broad range of reserves, including unemployment insurance, employee benefit accrued liability, inventory, and retirement contribution. The district ended fiscal 2014 with an operating surplus of \$761,000, bringing the available fund balance (consisting of unreserved and assigned fund balance) to \$3.1 million, or what we consider strong at 8.3% of expenditures. The total general fund balance was \$8.7 million, which we consider very strong at 23.4% of expenditures. Property taxes and state aid are the district's primary source of revenue, accounting for 93% and 7% of total general fund revenues, respectively. Management expects to close fiscal 2015 with close to breakeven operations despite an appropriation of \$1.0 million, which is in line with previous years' appropriations and is the district's common practice.

The district's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA), indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Five years of revenue and expenditure trends are used in budget development and budget-to-actual performance and investment activity are reported monthly to the school board. We understand that the district also projects the financial performance of the district for three years taking into account historical and current economic trends. The district complies with state requirements for five-year facilities assessment and maintenance plans. It targets the 4% state limit in maintaining unreserved, undesignated fund balances and regularly reviews and funds operating reserves in the general fund. The district does not have any debt management policies.

In our view, the district's overall debt burden is low at 1.6% of market value, albeit elevated, net of building aid, at \$5,961 per capita. The district's overlapping debt number contributes to the high overall net debt per capita figure. Debt service was 8.5% of fiscal 2013 governmental expenditures, which we consider moderate. Amortization is fairly rapid, with 79% debt repaid in 10 years and 100% by 2030. Officials indicate that the district has no plans to issue additional debt within next two years.

The district participates in the New York State Teachers' Retirement System and the Employees' Retirement System. The combined fiscal 2014 pension payments were \$2.6 million, or 6.8% of operating expenditures. The district's unfunded other postemployment benefits liability was \$48.9 million as of July 1, 2013, and the annual required contribution was \$4.3 million in fiscal 2014, of which the district contributed \$1.6 million, or 4.3% of expenditures.

Outlook

The stable outlook reflects Standard & Poor's opinion of the district's participation in the stable local economy. We believe what we consider the district's very strong financial performance, limited capital needs, and affluent tax base

remain stabilizing credit factors. In addition, we expect the district to continue to adjust expenses, as necessary, to maintain at least what we view as good available general fund reserves. As such, we do not expect to raise the rating over the outlook's two-year period.

Related Criteria And Research

Related Criteria

USPF Criteria: GO Debt, Oct. 12, 2006

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