

CREDIT OPINION

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New Issue


Contacts

Vladimir Puchek 212-553-3792
 Associate Analyst
 vladimir.puchek@moodys.com

Cristin Jacoby 212-553-0215
 VP-Senior Analyst
 cristin.jacoby@moodys.com

Frontier Central School District, NY

New Issue - Moody's Upgrades Frontier Central School District, NY's GO Bonds to Aa3

Summary Rating Rationale

Moody's Investors Service has assigned underlying and enhanced Aa3 ratings to Frontier Central School District's (NY) \$5.6 million School District Refunding (Serial) Bonds, Series 2016. Concurrently, Moody's upgraded to Aa3 from A1 the rating on district's \$23.4 million General Obligation debt outstanding, as well as affirming the district's outstanding Aa3 enhanced rating.

The Aa3 rating reflects the district's well-managed financial operations and sound reserve levels, sizeable tax base with average wealth levels, and manageable debt position.

The enhanced Aa3 rating is based on additional security provided by the New York State Section 99-B Intercept Program. The program authorizes the state to withhold state aid in order to make bond payments in the event of default. The ratings is derived from bottom up notching guidance provided by the methodology scorecard, an evaluation of satisfactory debt service coverage, and the consideration of the "state rating cap" which limits the enhanced rating at two notches below the state of New York's GO rating (Aa1 stable).

Credit Strengths

- » Conservative budget practices with prudent management
- » Growing tax base

Credit Challenges

- » Limited revenue raising abilities

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Significant growth in reserves and liquidity
- » Material growth in tax base and wealth levels

Factors that Could Lead to a Downgrade

- » Structural imbalance resulting in declines of reserves and liquidity

- » Declines in tax base
- » Significant increase in debt burden

Key Indicators

Exhibit 1

Frontier Central School District, NY	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 2,251,286	\$ 2,268,984	\$ 2,394,650	\$ 2,459,075	\$ 2,568,492
Full Value Per Capita	\$ 62,614	\$ 62,688	\$ 65,659	\$ 67,425	\$ 70,426
Median Family Income (% of US Median)	115.7%	115.7%	113.7%	113.7%	113.7%
Finances					
Operating Revenue (\$000)	\$ 67,483	\$ 69,164	\$ 70,806	\$ 72,727	\$ 77,411
Fund Balance as a % of Revenues	12.1%	9.3%	9.0%	9.2%	12.9%
Cash Balance as a % of Revenues	9.8%	9.2%	10.3%	12.3%	16.8%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 20,092	\$ 17,884	\$ 32,952	\$ 39,139	\$ 38,476
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.5x	0.5x	0.5x
Net Direct Debt / Full Value (%)	0.9%	0.8%	1.4%	1.6%	1.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.5x	1.6x	1.6x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	4.7%	4.8%	4.9%	3.8%

2017 Full Valuation (\$000) is \$2,656,571

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Mature Tax Base with Average Wealth Levels

The \$2.6 billion tax base and economy of the district will remain stable over the medium term given its location and continued development. Located in Erie County (A2 stable) New York (Aa1 stable), south of Buffalo (A1 stable), the district is primarily residential in nature. The northern portion of the district benefits from its close proximity to Buffalo. Assessed and full values over the past five years have continued to grow at an average rate of 3.4%, reflecting the ongoing commercial and residential development. Valuations are expected to continue to increase modestly in the near term. Income levels are average, with Median Family Income equal to 104% of the state and 114% of the nation (American Community Survey 2014).

Financial Operations and Reserves: Healthy Financial Position With Sound Fiscal Management

Frontier CSD's strong financial position will remain healthy given sound fiscal management with conservative budgeting practices. After several years of declines in reserves, the district has returned to structural balance, and it ended fiscal 2016 with a surplus that increased available General Fund balance to 11.6% of revenues. Management fully replenished the \$800,000 budgeted appropriation. Operations are supported primarily from property taxes (49.3%), which have been stable, and state aid (41.3%), which is sensitive to cutbacks. The primary expenditures are instruction and employee benefits representing 56.0% and 24.5% of fiscal 2016 expenditures, respectively.

For fiscal 2017, the approved budget increased by 2% from fiscal 2016 and includes a \$800,000 fund balance appropriation. Despite this, the district projects a \$700,000 surplus at the end of fiscal 2017, driven by conservative budgeting for expenditures. Moody's notes that the district's ability to maintain structural balance and current reserve levels is key to its rating.

LIQUIDITY

The district has very strong liquidity, sized at \$13 million, or 17% of benefits from a highly liquid fund balance, and is expected to remain sound.

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.com for the most updated credit rating action information and rating history.

Debt and Pensions: Average Debt Profile With Rapid Payout

The district's direct debt burden of 1.5% of full value is expected to remain manageable given rapid principal payout of 82% (within 10-years). The overall debt burden increases to 3.1% when factoring in the overlapping debt of the local municipalities. Management anticipates issuing \$23 million in new debt over the mid-term. Although the issuance would increase debt burden to a higher 2.3% of full value, the district's debt profile will remain manageable given strong management with well-developed capital plans.

DEBT STRUCTURE

All debt is fixed rate and amortized over the long term.

DEBT-RELATED DERIVATIVES

The district has no derivative agreements.

PENSIONS AND OPEB

Pensions have been a moderate source of pressure for the district, but are expected to remain manageable given prudent budgetary controls. The district participates in the New York State Teachers Retirement System and the New York State and Local Retirement System, both multi-employer, defined benefit retirement plans sponsored by the State of New York (GO rated Aa1/stable). The district's combined annual required contribution (ARC) for the plans totaled 8.1% of 2016 General Fund expenditures. The district's 3-year average combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, totaled \$97.6 million or approximately 1.3 times General Fund 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.

The district also provides employees with Other Postemployment Benefits (OPEB), and as of the last actuarial date (06/30/2016), had an unfunded actuarial liability of \$6.3 million. The amount paid during 2016 by the district was \$431,000 (or 104% of annual OPEB cost). Total fixed costs for 2016 including pension, OPEB and debt service totaled \$11 million or a manageable 15% of General Fund expenditures.

Management and Governance

Frontier CSD's management has been diligent in to budget conservatively in order to maintain structural balance.

New York school districts have an institutional framework score of "A" or moderate. Revenues are almost totally comprised of local property taxes and state aid, which is determined by a state funding formula. The state limits the annual growth in the school district property tax levy to the lower of 2% or the rate of inflation. School district property tax revenue is highly predictable given that full collection is guaranteed by counties and towns expenditures are also relatively predictable, although strong collective bargaining groups make it difficult to reduce personnel expenses.

Legal Security

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

Use of Proceeds

Proceeds will refund the district's outstanding School District (Serial) Bonds, 2009 for a net present value savings of \$460,000 or 8% of the refunded principal.

Obligor Profile

Frontier Central School District services a population of 36,471 in the southern portion of Erie County (A2 stable) along the shore of Lake Erie in the Town of Hamburg (Aa2).

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moody's.com for a copy of these methodologies.

Ratings

Exhibit 2

Frontier Central School District, NY

Issue	Rating
School District Refunding (Serial) Bonds, Series 2016	Aa3

Rating Type	Underlying LT
Sale Amount	\$5,605,000
Expected Sale Date	11/18/2016

Rating Description	General Obligation
School District Refunding (Serial) Bonds, Series 2016	Aa3

Rating Type	Enhanced LT
Sale Amount	\$5,605,000
Expected Sale Date	11/18/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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