

ISSUER COMMENT

5 June 2020

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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Frontier Central School District, NY

Annual Comment on Frontier CSD

Issuer Profile

Frontier Central School District is located in Erie County in the southwestern region of upstate New York. The district is headquartered in the Town of Hamburg, approximately 10 miles south of Buffalo near the shore of Lake Erie. The county has a population of 919,866 and a moderate population density of 881 people per square mile. The county's median family income is \$75,121 (2nd quartile) and the March 2020 unemployment rate was 5% (3rd quartile) ². The largest industry sectors that drive the local economy are health services, retail trade, and manufacturing.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Frontier CSD. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Frontier CSD changes, we will update our opinion at that time.

Credit Overview

Frontier CSD'S credit position is strong. Its Aa3 rating is equivalent to the US school districts median of Aa3. Notable credit factors include a healthy financial position, a slightly above average wealth and income profile and a solid tax base. It also reflects an affordable debt burden and a moderate pension liability.

Finances: The district has a robust financial position, which is aligned with the assigned rating of Aa3. Frontier CSD'S cash balance as a percent of operating revenues (22.9%) is a little lower than the US median, but grew materially between 2015 and 2019. Also, the fund balance as a percent of operating revenues (18.8%) is slightly lower than other Moody's-rated school districts nationwide.

Economy and Tax Base: The economy and tax base of Frontier CSD are quite healthy and are consistent with its Aa3 rating. The median family income equals a solid 109.3% of the US level. In addition, the full value per capita (\$75,932) is consistent with the US median, and increased materially from 2015 to 2019. Lastly, the total full value (\$2.8 billion) is slightly stronger than the US median.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, consumer, oil and gas and international trade sectors could suffer particularly severe impacts.

Debt and Pensions: The debt burden of the district is manageable and is in line with the Aa3 rating assigned. Frontier CSD'S net direct debt to full value (1.2%) is slightly below the US median, and decreased modestly between 2015 and 2019. Moreover, the pension liability of the district is moderate and is comparable to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (1.6x) approximates the US median. The majority of New York school districts receive state building aid reimbursements for approved capital spending which can be used to help offset debt costs.

Management and Governance: New York school districts have an institutional framework score ³ of "A", which is moderate. New York School Districts operate within a state-imposed property tax cap, which limits their ability to increase their operating levy by the lesser of 2% or CPI. This cap cannot be overridden at the local level, but can be overridden with 60% voter approval. Unpredictable revenue fluctuations tend to be low, or less than 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. New York State has the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% annually.

Sector Trends - New York School Districts

We expect New York's economic expansion and local government tax base growth to continue over the medium term despite the shutdown of non-essential businesses across the state in response to the coronavirus outbreak. Growth will, however, vary significantly by region and may pause depending on the duration of the shutdown and how long it takes for economic activity to return to normal or near-normal. School districts continue to be constrained by the statewide property tax cap, but most are able to maintain balanced operations, in part due to favorable state aid trends and keeping expense growth in check. Currently, the State budget calls for flat state aid for fiscal 2020-2021, however aid to school districts may change based on declines in state revenues and the amount of assistance the state receives from the federal government. Enrollment is generally declining, although there are modest increases in some areas. Charter schools have not created pressure in New York. Pension liabilities are not a pressure for New York schools due to the well-funded nature of the state run plan. Although the decline in the market will put pressure on pension expenses over the next three to five years. OPEB liabilities across the state are generally higher than the national average. However, total unfunded liabilities are only slightly above average.

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

EXHIBIT 1

Key Indicators ^{4.5} Frontier CSD

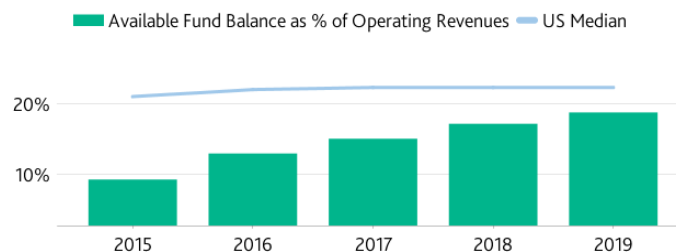
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,459M	\$2,568M	\$2,656M	\$2,709M	\$2,815M	\$1,919M	Improved
Full Value Per Capita	\$67,199	\$69,567	\$71,644	\$73,083	\$75,932	\$87,328	Improved
Median Family Income (% of US Median)	114%	117%	109%	109%	109%	101%	Weakened
Finances							
Available Fund Balance as % of Operating Revenues	9.2%	12.9%	15.0%	17.1%	18.8%	22.3%	Improved
Net Cash Balance as % of Operating Revenues	12.3%	16.8%	22.0%	20.6%	22.9%	27.2%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	1.6%	1.5%	1.3%	1.2%	1.2%	1.6%	Stable
Net Direct Debt / Operating Revenues	0.54x	0.50x	0.46x	0.41x	0.40x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	4.9%	3.8%	4.3%	4.6%	4.8%	3.3%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.64x	1.26x	1.46x	1.56x	1.63x	1.48x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	36,594	36,921	37,080	37,080	37,080	N/A
Available Fund Balance (\$000s)	\$6,697	\$9,994	\$11,718	\$13,706	\$15,486	\$9,391
Net Cash Balance (\$000s)	\$8,971	\$13,008	\$17,153	\$16,504	\$18,940	\$11,164
Operating Revenues (\$000s)	\$72,727	\$77,411	\$78,065	\$79,973	\$82,593	\$42,583
Net Direct Debt (\$000s)	\$39,139	\$38,476	\$35,599	\$33,049	\$32,680	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$119,330	\$97,520	\$113,896	\$124,833	\$134,589	\$62,410

Source: Moody's Investors Service

EXHIBIT 2

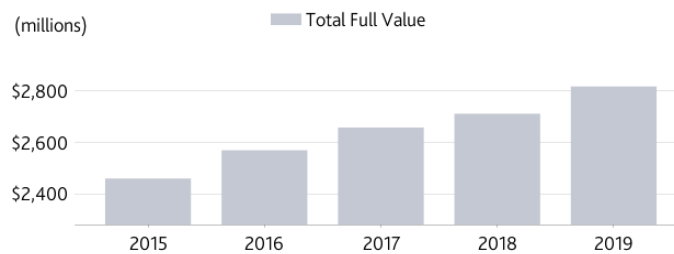
Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

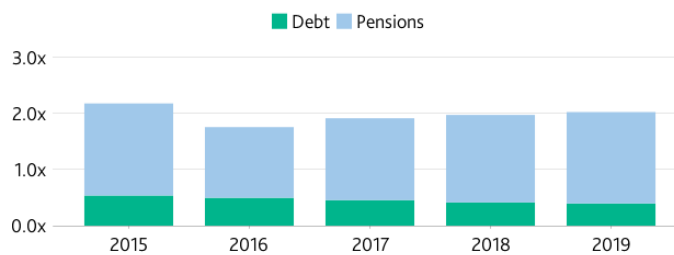
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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