

## CREDIT OPINION

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 Rate this Research

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# Wantagh Union Free School District, NY

## Update following downgrade to Aa3

### Summary

The credit profile of [Wantagh Union Free School District, NY](#) (Aa3) is characterized by a wealthy tax base on the south shore of Long Island. While its financial position has narrowed in recent years, it is expected to remain adequate as new management has discontinued the practice of appropriating from fund balance to balance the budget. The district has a moderately declining enrollment in line with regional demographic trends, manageable long-term liabilities, and below average fixed costs.

On March 4, we downgraded the district's general obligation unlimited tax (GOULT) rating from Aa2 to Aa3, and assigned a Aa3 issuer rating.

### Credit strengths

- » Above average full value per capita and high resident income
- » Low debt burden

### Credit challenges

- » Above average unfunded pension and OPEB liabilities
- » Reserve and liquidity ratios remain below the state median for the rating category
- » Declining enrollment due to demographic trends

### Rating outlook

Moody's does not typically assign outlooks to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Increased fund balance and net cash
- » Improved enrollment trend
- » Material decrease in long-term liabilities
- » Strengthening of full value per capita or resident income levels

### Factors that could lead to a downgrade

- » Material decline in fund balance or net cash

- » Declining enrollment trend
- » Material increase in long-term liabilities or fixed costs
- » Significant decline in full value per capita or resident income levels

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.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 1

### Wantagh Union Free School District, NY

|                                | 2017        | 2018        | 2019        | 2020        | Aa Medians  |
|--------------------------------|-------------|-------------|-------------|-------------|-------------|
| <b>Economy</b>                 |             |             |             |             |             |
| Resident income                | 194.9%      | 194.8%      | 197.0%      | N/A         | 119.1%      |
| Full value (\$000)             | \$2,294,467 | \$2,380,113 | \$2,537,178 | \$2,201,446 | \$4,236,698 |
| Population                     | 17,291      | 17,066      | 16,739      | N/A         | 36,670      |
| Full value per capita          | \$132,697   | \$139,465   | \$151,573   | N/A         | \$109,989   |
| Enrollment                     | 2,966       | 2,848       | 2,790       | 2,770       | 4,741       |
| Enrollment trend               | N/A         | -2.9%       | -2.5%       | -2.3%       | -0.1%       |
| <b>Financial performance</b>   |             |             |             |             |             |
| Operating revenue (\$000)      | \$73,877    | \$74,666    | \$76,443    | \$78,523    | \$76,248    |
| Available fund balance (\$000) | \$10,538    | \$8,220     | \$6,448     | \$6,489     | \$18,681    |
| Net cash (\$000)               | \$12,571    | \$11,123    | \$8,975     | \$10,108    | \$22,379    |
| Available fund balance ratio   | 14.3%       | 11.0%       | 8.4%        | 8.3%        | 24.5%       |
| Net cash ratio                 | 17.0%       | 14.9%       | 11.7%       | 12.9%       | 29.6%       |
| <b>Leverage</b>                |             |             |             |             |             |
| Debt (\$000)                   | \$23,040    | \$20,533    | \$17,928    | \$15,245    | \$53,115    |
| ANPL (\$000)                   | \$148,943   | \$129,752   | \$120,360   | \$140,558   | \$108,452   |
| OPEB (\$000)                   | N/A         | \$110,376   | \$124,252   | \$141,378   | \$12,231    |
| Long-term liabilities ratio    | N/A         | 349.1%      | 343.4%      | 378.5%      | 288.5%      |
| Implied debt service (\$000)   | \$1,875     | \$1,711     | \$1,513     | \$1,307     | \$3,743     |
| Pension tread water (\$000)    | \$3,626     | \$3,170     | \$3,274     | \$3,151     | \$3,666     |
| OPEB contributions (\$000)     | N/A         | \$2,959     | \$3,280     | \$3,444     | \$525       |
| Fixed-costs ratio              | N/A         | 10.5%       | 10.6%       | 10.1%       | 12.3%       |

For definitions of the metrics in the table above please refer to the [K12 Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published K12 Median Report.

Sources: US Census Bureau, Wantagh Union Free School District, NY's financial statements and Moody's Investors Service

## Profile

Wantagh UFSD is located in eastern Nassau County, New York, on the south shore of Long Island, approximately 25 miles east of New York City. The district is situated within the [Town of Hempstead](#) (Aa1 stable). The district provides public K-12 education to approximately 2,800 students and operates three elementary school buildings, a middle school building, and a high school building.

## Detailed credit considerations

### Economy: Wealthy tax base on south shore Long Island

The district's wealthy, suburban residential tax base will continue to benefit from its south shore Long Island location 30 miles east of Manhattan. Residents typically find employment opportunities throughout Nassau County, western Suffolk County and New York City. Full value per capita is above the state and national medians at \$131,516, but declined in 2020 as Verizon, the third largest taxpayer that consisted of 1.2% of 2019 total assessed value, relocated and was replaced by a non-taxable hospital property. Taxpayer concentration is otherwise insignificant, with the top ten taxpayers amounting to about 10% of assessed value and mainly comprised of utilities and commercial properties.

Enrollment has decreased at a 3-year compound annual rate of 2.3% due to demographic trends in the region. The district projects that enrollment will decrease incrementally due to lower live births. The district's academic performance is above average within the state and there are no charter or private schools within the district.

Adjusted resident income is high at 197.0% of the national median, despite a relatively higher regional price parity indicating that cost of living is higher in the region than in the US as a whole.

### Financial performance: Narrowed financial position expected to remain adequate

The district's financial position is expected to remain adequate due to new management's practice of ceasing to appropriate fund balance to balance the budget. The district's reserves and liquidity had decreased in consecutive years from fiscals 2016 through 2019 due to budgeted draws to satisfy the New York State Comptroller's concerns regarding excessive fund balance levels.

In fiscal 2020, available operating fund (inclusive of the General Fund and Debt Service Fund) balance increased by \$41,000 to \$6.5 million, representing an adequate 8.3% of operating revenue. The original budget had included a \$1.1 million draw from fund balance and a \$132,000 draw from reserves. The outperformance compared to budget was due to actual expenditures coming under budgeted in all line items, mostly attributed school closures and related savings.

The fiscal 2021 budget includes a 2.8% increase in the property tax levy and a 1.8% budget-to-budget expenditure increase driven by salary increases. The budget also included a budgeted \$700,000 draw from retirement reserves and no draw from unassigned fund balance. Management notes that operations are tracking close to budget and would expect to replenish budgeted draws and end the year with an approximate \$1 million surplus pending federal, state, and local reimbursements for approximately \$2 million in COVID-19 related expenditures.

The fiscal 2022 budget is not expected to include draws from fund balance or reserves to balance the budget.

The district's primary revenue sources include property taxes (76.9% of fiscal 2020 operating revenues), which are guaranteed in full with uncollected amounts remitted to the district by the county, though sometimes at the beginning of the next fiscal year. Another primary revenue source includes state aid (21.9%).

### Liquidity

Liquidity increased in fiscal 2020 from the prior year, with operating net cash increasing by \$1.1 million to \$10.1 million, representing an adequate 12.9% of operating revenue. The district issues tax anticipation notes (TANs) annually to cover the timing mismatch between expenses, which are evenly distributed across the year, and property tax revenues, which are not evenly distributed. The district typically issues \$6-7 million TANs annually but issued \$13.3 million in fiscal 2021 due to the state delaying the property tax payment deadline by one month during the pandemic. The district anticipates to issue its regular annual amount of approximately \$7 million TANs in fiscal 2022.

### Leverage: Manageable overall long-term liabilities and below average fixed costs

The district's debt burden is low and likely to increase with additional debt authorizations and issuances in the medium term, but remain manageable due to rapid amortization. As of fiscal 2020, the district had \$15.2 million in gross direct debt outstanding, representing a low 0.2x operating revenue. The district has no authorized unissued debt remaining but notes that it has plans to authorize debt for building renovations at a cost of approximately \$50 million in the next five years.

### Legal security

The general obligation bonds are secured by the district's faith and credit supported by its authority to levy ad valorem taxes to pay debt service on all taxable property within the district without limitation as to rate or amount. The bonds are further secured by the section 99b state aid intercept program.

### Debt structure

All of the district's debt is fixed rate, and amortization of debt is rapid with 100.0% of principal retired in 10 years.

### Debt-related derivatives

The district is not party to any interest rate swaps or other derivative agreements.

### Pensions and OPEB

The district's pension liability will remain manageable for the foreseeable future due to contributions in excess of the tread water amount. The district participates in the New York State Teachers' Retirement System (TRS) and the New York State and Local Employees' Retirement System (ERS), two multi-employer, defined benefit retirement plans sponsored by the State of New York (Aa2 stable). The district's adjusted net pension liability (ANPL) is much higher than reported pension liability because the market interest rates we use to value pension liabilities are far lower than reported discount rates. The district's reported pension liability reflected a discount rate of 7.1% in fiscal year 2020, well above the 3.5% discount rate we applied in our standard adjustments. Favorably,

management does not expect to defer any portion of its annual pension contributions. The district's fiscal 2020 pension contribution of \$4.1 million accounted for 5.2% of operating revenues and exceeded the tread water requirement by \$925,000. The district's fiscal 2020 ANPL totaled \$140.6 million representing an above average 1.8x operating revenue. Failure to achieve the assumed rate of return in the state sponsored pension plan could result in higher future pension contributions.

The district's OPEB liability is above average. The OPEB liability reflects a reported discount rate that is slightly below the Moody's discount rate, leading to similar estimates of net liabilities between reported and Moody's-adjusted figures. Negatively, New York State law does not allow for local governments to fund a trust for OPEB. While legislation to allow local governments to fund a trust is currently under discussion, the district continues to make its annual OPEB contribution, which in fiscal 2020 was \$3.4 million representing 4.4% of operating revenue. Absent legislation, or changes to benefits, the district's adjusted net OPEB liability of \$141.4 million, which is an above average 1.8x operating revenue, will continue to grow as benefits accrue. The pay-go contribution will also increase as the number of retirees covered increases and they age, potentially placing pressure on future budgets.

Fiscal 2020 fixed costs, comprised of pensions contributions, OPEB contributions and implied debt service, represented a manageable 10.1% of operating revenue. Increased pension or OPEB contributions could result in higher fixed costs in the future.

Exhibit 2

### Low debt burden and above average unfunded pension and OPEB liabilities

| 2020   | \$\$\$<br>(000) | % of Operating<br>Revenues | Discount Rate |
|--|-----------------|----------------------------|---------------|
| Operating Revenue                                      | 78,523          | n/a                        | n/a           |
| Reported Unfunded Pension Liability                    | (30)            | 0%                         | 7.06%         |
| Moody's Adjusted Net Pension Liability                 | 140,558         | 179%                       | 3.46%         |
| Reported Net OPEB Liability                            | 155,045         | 197%                       | 2.21%         |
| Moody's Adjusted Net OPEB Liability                    | 141,378         | 180%                       | 2.70%         |
| Gross Direct Debt                                      | 15,245          | 19%                        | n/a           |
| Debt & unfunded retirement benefits (Moody's adjusted) | 297,181         | 378.46%                    |               |
| Pension Contribution                                   | 4,076           | 5.19%                      | n/a           |
| OPEB Contribution                                      | 3,444           | 4.39%                      | n/a           |
| Implied Debt Service                                   | 1,307           | 1.66%                      | n/a           |
| Total Fixed Costs                                      | 8,827           | 11.24%                     | n/a           |
| Tread Water Gap  | (925)           | -1.18%                     | n/a           |
| Moody's Adjusted Fixed Costs                           | 7,902           | 10.06%                     | n/a           |

[1] A negative pension tread water gap reflects pension contribution in excess of the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A positive tread water gap reflects the opposite.

Source: Moody's Investors Service and issuer's audited financial statements

## ESG considerations

### Environmental

Physical environmental risks associated with climate change represent a limited credit risk for the district over the next several years that may become more significant over time. Of the physical climate risks Moody's affiliate Four Twenty Seven evaluates, Nassau County's most significant exposures are its high risk to hurricanes and water stress, which could negatively affect tax base growth. Four Twenty Seven tracks data at the county and larger municipality level and thus no data is currently available for local governments with

fewer than 50,000 residents. The district's exposure is mitigated by the town's and county's active capital programs that are engaged in ongoing road repairs and sewer upgrades among other infrastructure projects, in addition to aid from FEMA for disaster recovery.

### Social

Social issues are unlikely to pose a material credit risk over the next two years. We will continue to monitor a variety of social factors including demographics, wealth levels, population trends and employment levels, as these remain important key credit metrics. The district has a low poverty rate of 2.5%, compared the national average of 13.4%. As of November 2020, the unemployment rate within Nassau County was 5.5%, which is below the state rate of 8.1% and the national rate of 6.4%.

### Governance

New management in fiscal 2020 has discontinued the practice of appropriating unassigned fund balance in annual budgets.

New York school districts have an Institutional Framework score of Aa. Control of revenue varies across the sector with some districts primarily dependent on state-controlled state aid that is allocated based largely on wealth, while others are funded primarily with locally controlled property taxes. Historically, the state has provided regular increases in annual state aid. The state's property tax caps provide enough room for districts to meaningfully raise property taxes each year. Districts can go to voters for increases that exceed the caps.

## Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 3

### Wantagh Union Free School District, NY

|   | Measure | Weight | Score      |
|---|---------|--------|------------|
| <b>Economy</b>  |         |        |            |
| Resident Income (MHI Adjusted for RPP / US MHI)                                     | 197.0%  | 10.0%  | Aaa        |
| Full value per capita (full valuation of the tax base / population)                 | 131,516 | 10.0%  | Aa         |
| Enrollment trend (three-year CAGR in enrollment)                                    | -2.3%   | 10.0%  | Baa        |
| <b>Financial performance</b>  |         |        |            |
| Available fund balance ratio (available fund balance / operating revenue)           | 8.3%    | 20.0%  | Baa        |
| Net cash ratio (net cash / operating revenue)                                       | 12.9%   | 10.0%  | A          |
| <b>Institutional framework</b>  |         |        |            |
| Institutional Framework   | Aa      | 10.0%  | Aa         |
| <b>Leverage</b>   |         |        |            |
| Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue) | 378.5%  | 20.0%  | A          |
| Fixed-costs ratio (adjusted fixed costs / operating revenue)                        | 10.1%   | 10.0%  | Aaa        |
| <b>Notching factors</b>   |         |        |            |
| No notchings applied  |         |        |            |
| Scorecard-Indicated Outcome   |         |        | A1         |
| <b>Assigned Rating</b>  |         |        | <b>Aa3</b> |

Sources: US Census Bureau, Wantagh Union Free School District, NY's financial statements and Moody's Investors Service

## Appendix

Exhibit 4

### Key Indicators Glossary

|                                | Definition   | Typical Source*   |
|--------------------------------|--|---|
| <b>Economy</b>                 |  |   |
| Resident income                | Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US  | MHI: American Community Survey (US Census Bureau)<br><br>RPP: US Census Bureau of Economic Analysis   |
| Full value (\$000)             | Estimated market value of taxable property accessible to the district  | State repositories, district's audited financial reports, offering documents or continuing disclosure |
| Population                     | Population of school district  | American Community Survey (US Census Bureau)  |
| Full value per capita          | Full value / population of school district   |   |
| Enrollment                     | Student enrollment of school district  | State data publications   |
| Enrollment trend               | 3-year Compound Annual Growth Rate (CAGR) of Enrollment  | State data publications; Moody's Investors Service  |
| <b>Financial performance</b>   |  |   |
| Operating revenue (\$000)      | Total annual operating revenue in what we consider to be the district's operating funds  | Audited financial statements  |
| Available fund balance (\$000) | Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds  | Audited financial statements  |
| Net cash (\$000)               | Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds  | Audited financial statements  |
| Available fund balance ratio   | Available fund balance / Operating Revenue   | Audited financial statements  |
| Net cash ratio                 | Net Cash / Operating Revenue   | Audited financial statements  |
| <b>Leverage</b>                |  |   |
| Debt (\$000)                   | District's direct gross debt outstanding   | Audited financial statements; official statements   |
| ANPL (\$000)                   | District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits                                  | Audited financial statements; Moody's Investors Service   |
| OPEB (\$000)                   | District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service   |
| Long-term liabilities ratio    | Debt, ANPL and OPEB liabilities as % of operating revenue  | Audited financial statements, official statements; Moody's Investors Service                          |
| Implied debt service (\$000)   | Annual cost to amortize district's long-term debt over 20 years with level payments  | Audited financial statements; official statements; Moody's Investors Service                          |
| Pension tread water (\$000)    | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met     | Audited financial statements; Moody's Investors Service   |
| OPEB contributions (\$000s)    | District's actual contribution in a given period, typically the fiscal year  | Audited financial statements; official statements   |
| Fixed-costs ratio              | Implied debt service, pension tread water and OPEB contributions as % of operating revenue   | Audited financial statements, official statements, pension system financial statements                |

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service



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