

## CREDIT OPINION

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# North Tonawanda City School District, NY

## Update to credit analysis

### Summary

[North Tonawanda City School District](#) (Aa3), NY's credit profile is supported by sound financial management resulting in consistent operating surpluses and healthy reserves and liquidity. The local economy is stable and resident income and wealth is average. Enrollment has modestly declined and while management expects the trend to flatten the local demographic trends may support further incremental declines. The district's long term liabilities are moderate and fixed costs are low.

### Credit strengths

- » Healthy reserves and liquidity
- » Manageable leverage
- » Low fixed costs

### Credit challenges

- » Average resident income and wealth
- » Declining enrollment

### Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

### Factors that could lead to an upgrade

- » Expansion of local economy and improved resident incomes and wealth
- » Material reserve growth
- » Stabilization of enrollment

### Factors that could lead to a downgrade

- » Deterioration of reserves and liquidity
- » Substantial increase in leverage
- » Sustained, rapid enrollment loss

## Key indicators

Exhibit 1

### North Tonawanda City School District, NY

	2017	2018	2019	2020	Aa Medians
<b>Economy</b>					
Resident income	97.9%	99.9%	98.0%	N/A	120.3%
Full value (\$000)	\$1,431,260	\$1,511,671	\$1,575,585	\$1,689,310	\$3,767,803
Population	30,752	30,596	30,487	N/A	32,239
Full value per capita	\$46,542	\$49,407	\$51,681	N/A	\$110,286
Enrollment	3,445	3,363	3,289	3,184	4,353
Enrollment trend	N/A	-1.9%	-1.8%	-2.6%	0.1%
<b>Financial performance</b>					
Operating revenue (\$000)	\$68,253	\$69,680	\$73,853	\$74,868	\$70,864
Available fund balance (\$000)	\$13,116	\$15,735	\$14,920	\$15,685	\$17,424
Net cash (\$000)	\$14,463	\$17,252	\$17,983	\$17,338	\$20,807
Available fund balance ratio	19.2%	22.6%	20.2%	20.9%	26.1%
Net cash ratio	21.2%	24.8%	24.4%	23.2%	31.0%
<b>Leverage</b>					
Debt (\$000)	\$43,549	\$59,546	\$54,196	\$50,909	\$48,829
ANPL (\$000)	\$116,906	\$101,489	\$93,799	\$112,958	\$92,102
OPEB (\$000)	\$16,012	\$15,391	\$10,051	\$10,209	\$10,438
Long-term liabilities ratio	258.5%	253.2%	214.0%	232.5%	280.7%
Implied debt service (\$000)	\$2,164	\$3,235	\$4,387	\$3,951	\$3,402
Pension tread water (\$000)	\$2,770	\$2,483	\$2,565	\$2,539	\$3,018
OPEB contributions (\$000)	\$874	\$974	\$244	\$207	\$440
Fixed-costs ratio	8.5%	9.6%	9.7%	8.9%	11.9%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts 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, North Tonawanda City School District, NY's financial statements and Moody's Investors Service

## Profile

North Tonawanda City School District is located in [Niagara County](#) (Aa3) in the northwestern corner of [New York](#) (Aa2 positive), approximately 10 miles north of [Buffalo](#) (A1 stable). The district consists of six elementaries, one middle school and one senior high. In 2020, the district's enrollment was 3,184.

## Detailed credit considerations

### Economy

North Tonawanda City School District's local economy is anticipated to remain stable with modest growth derived from smaller developments and rehabilitation of existing properties. The scope of new development within the area is fairly limited including improvements to the city's industrial corridors and the construction of luxury apartment complexes along the city's riverfront. Residents within the district typically commute to and around Buffalo for employment.

Resident incomes and wealth are moderate. Median household income adjusted for regional price parity represents 98.0% of the national median. Median home value within the district was \$122,700 as of 2019; equal to 39.1% and 56.4% of the state and US median values respectively. The district's wealth profile adequately supports the district's property tax revenue line which accounts for less than half of general fund revenue (39.1% in 2020).

Enrollment is projected to be fairly stable through 2023 however demographics indicate enrollment may decline. The resident population has been modestly declining for several years, down 3.4% from 2010 to 2019. The resident population also skews slightly older with a median age of 45.6 (compared to 38.1 nationally) and proportions of school age children (12.4%) and children under five (5.6%) are lower than national rates (16.5% and 6.1% respectively).

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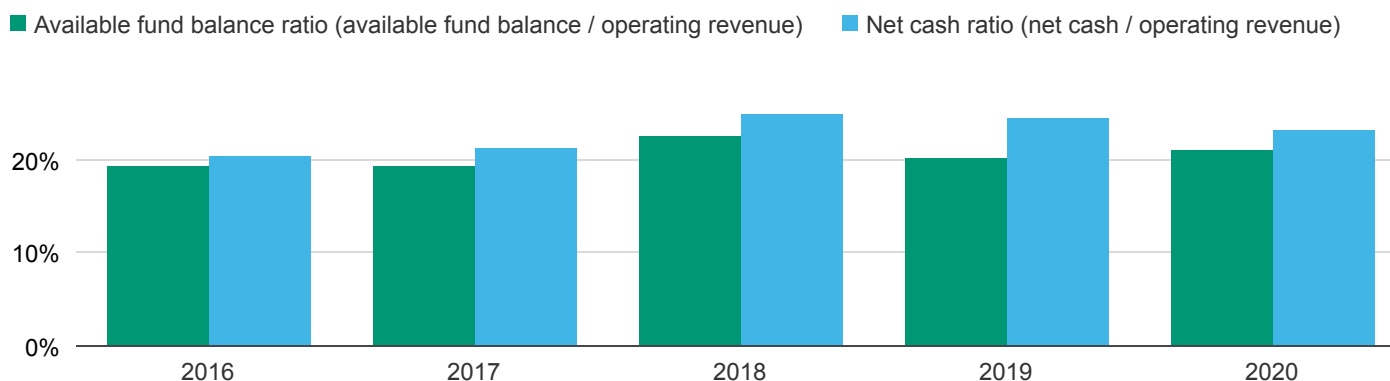
## Financial operations

North Tonawanda City School District's financial profile is anticipated to remain healthy and appropriate for the rating category. The district closed fiscal 2020 with \$15.7 million in available fund balance equal to 20.9% of general fund revenues and preliminary accounting for fiscal 2021 shows a third consecutive operating surplus of about \$700,000. The district intends to add these surplus funds to its capital and retirement reserves.

The district's \$81.8 million 2022 budget is a modest 1.03% increase over the 2021 budget. The budget is balanced with a \$4.75 million fund balance appropriation; the district typically incorporates fund balance into its budget which is then replenished or unexpended before the fiscal year end. The district did not incorporate significant pandemic-related contingencies in its 2022 budget with revenues and expenses modeled after more "typical" operating years. The district is set to receive about \$8 million in federal COVID relief which would cover learning loss and other pandemic driven responses into the current fiscal year.

Exhibit 2

### Stable fund and cash balance as percentage of general fund revenues



Source: North Tonawanda City School District, NY's financial statements and Moody's Investors Service

## Liquidity

The district ended fiscal 2020 with \$17.3 million in cash and investments, equal to 23.2% of general fund revenues.

## Leverage

North Tonawanda City School District's long term liabilities are expected to remain fairly stable. Leverage is moderate and fixed costs are very modest. The district has no other immediate plans to pursue additional bond authorization or issuances. The district's next building condition survey is expected to be completed this year and will be the basis of any future capital plans. Management reports it may pursue a new transportation building within the medium term. The district's building aid ratio of 84.1% keeps the local share for its capital needs low.

## Legal security

The 2021 series bonds and outstanding general obligation debt are payable from the district's full 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 debt is further supported 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 82.5% of principal retired in 10 years.

## Debt-related derivatives

The district is not a party to any debt-related derivatives.

## Pensions and OPEB

Pension and other post-retiree healthcare (OPEB) liabilities are larger than the district's outstanding debt and may represent a long term credit challenge.

Exhibit 3

2020	\$\$\$ (000)	% of Operating Revenues	Discount Rate
Operating Revenue	74,868		
Reported Unfunded Pension Liability	446	0.6%	7.05%
Moody's Adjusted Net Pension Liability	112,958	150.9%	3.45%
Reported Net OPEB Liability	10,967	14.6%	2.48%
Moody's Adjusted Net OPEB Liability	10,209	13.6%	3.51%
Net Direct Debt	43,749	58.4%	
Debt & unfunded retirement benefits (Moody's adjusted)	174,076	222.9%	
Pension Contribution	3,171	4.2%	
OPEB Contribution	207	0.3%	
Debt Service	5,538	7.4%	
Total Fixed Costs	8,916	11.9%	
Pension Tread Water Indicator	2,539	3.4%	
OPEB Contribution	207	0.3%	
Implied Debt Service	3,951	5.3%	
Moody's Adjusted Fixed Costs	6,697	8.9%	

[1] Net direct debt includes current issuance

Source: North Tonawanda City School District, NY's financial statements and Moody's Investors Service

The district participates in two multiple employer cost-sharing pension plans. While the plans are fully funded on a reported basis, adjusted for a more conservative assumed return on pension assets the unfunded liability is larger than the district's debt. Positively, the district made 100% of its 2020 required contribution to the plans, a total of \$3.2 million representing 4.2% of operating revenues. The contribution was in excess of the "pension tread water indicator," a credit positive. Pension contributions will increase if, over the long term, the return on pension assets is below the currently assumed rate of 7.05%. Declines in equity values over the last several months have made achievement of the assumed return unlikely in the current year.

Unlike pensions, the district's retiree healthcare (OPEB) liability is unfunded given that NYS law does not allow local governments to establish OPEB trusts. Despite this restriction, the district's adjusted net OPEB liability is very modest at \$10.2 million representing 13.6% of operating revenue. The district's 2020 OPEB contribution totaled \$207,000 representing 0.3% of operating revenues.

Fiscal 2020 total fixed costs, consisting of pension and OPEB contributions and debt service, totaled \$8.9 million or 11.9% of operating revenues. The Moody's adjusted fixed costs, comprised of pension tread water, OPEB and implied debt service, totaled \$6.7 million representing a modest 8.9% of operating revenues. Return on assets in the state run pension plans and future escalation of OPEB costs could materially affect fixed costs going forward.

## ESG considerations

### Environmental

The district is located in a county assessed to have medium risk of extreme rainfall. The City of North Tonawanda was recently hit by significant rainfall that resulted in flash flooding that overwhelmed the city's stormwater system. Management reports that the

district's facilities were not materially damaged during this flooding episode and historically the district has not been affected by flooding or other environmental damage. Potential risk to the district's facilities is offset by strong reserves and a high building aid ratio.

### Social

Social issues are unlikely to pose a material credit risk in the medium term. 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's poverty rate of 8.8% compares well against the national rate of 13.4%. Unemployment in Niagara County was 5.4% in May 2021 which compares favorably to the state rate of 6.9% and national rate of 5.5%.

### Governance

New York school districts have an Institutional Framework score <sup>1</sup> 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 4

### North Tonawanda City School District, NY

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (MHI Adjusted for RPP / US MHI)	98.0%	10.0%	A
Full value per capita (full valuation of the tax base / population)	59,800	10.0%	Baa
Enrollment trend (three-year CAGR in enrollment)	-2.6%	10.0%	Baa
<b>Financial performance</b>			
Available fund balance ratio (available fund balance / operating revenue)	20.9%	20.0%	Aa
Net cash ratio (net cash / operating revenue)	23.2%	10.0%	Aa
<b>Institutional framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	232.5%	20.0%	Aa
Fixed-costs ratio (adjusted fixed costs / operating revenue)	8.9%	10.0%	Aaa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa3</b>

Sources: US Census Bureau, North Tonawanda City School District, NY's financial statements and Moody's Investors Service

## Appendix

Exhibit 5

### 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)  RPP: US 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 the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

## Endnotes

- The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See [US K-12 Public School Districts Methodology](#) for more details.

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