

CREDIT OPINION

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New Issue

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Kinderhook Central School District, NY

Update to credit analysis

Summary

The credit profile of [Kinderhook Central School District, NY](#) (Aa3) is characterized by a moderately-sized tax base, above average resident wealth and income, and a stable and healthy financial position. The district also has a below average debt burden with expected increases within the next two years, a manageable unfunded pension liability, and elevated unfunded OPEB liability.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Kinderhook Central School District, NY. The district depends on state aid for approximately 37.5% of its operating revenue. The [State of New York](#) (Aa2 stable) is currently experiencing significant declines and delays in income tax and sales tax revenue. Unless the federal government provides additional assistance, the state will likely reduce state aid to school districts in 2021 possibly resulting in the use of some of the district's financial reserves and/or expense cuts. Given the district's current hold on one-time expenditure items and planned expenditure decreases until further notice about state aid impacts and ability to appropriate additional fund balance, cuts to state aid are expected to remain manageable. However, the situation surrounding the 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 the district changes, we will update our opinion at that time.

Credit strengths

- » Above average resident wealth and income
- » Healthy, consistent reserves and liquidity

Credit challenges

- » Declining enrollment in line with demographic trends
- » Elevated unfunded OPEB liability

Rating outlook

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

Factors that could lead to an upgrade

- » Surplus operations leading to strengthening reserves and liquidity

- » Material growth in the tax base and resident wealth and income
- » Material decrease in pension or OPEB burdens

Factors that could lead to a downgrade

- » Material decline in financial reserves and liquidity
- » Tax base contraction
- » Material growth in debt, pension or OPEB burdens

Key indicators

Exhibit 1

Kinderhook Central School District, NY	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$1,240,463	\$1,249,304	\$1,267,794	\$1,368,127	\$1,396,613
Population	13,894	13,754	13,908	-	-
Full Value Per Capita	\$89,281	\$90,832	\$91,156	N/A	N/A
Median Family Income (% of US Median)	125.4%	124.8%	116.6%	N/A	N/A
Finances					
Operating Revenue (\$000)	\$37,167	\$37,754	\$38,573	\$40,216	\$40,902
Fund Balance (\$000)	\$4,409	\$5,140	\$4,831	\$5,757	\$5,565
Cash Balance (\$000)	\$5,006	\$5,970	\$5,690	\$5,506	\$4,238
Fund Balance as a % of Revenues	11.9%	13.6%	12.5%	14.3%	13.6%
Cash Balance as a % of Revenues	13.5%	15.8%	14.8%	13.7%	10.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$10,998	\$11,601	\$10,583	\$9,657	\$8,559
3-Year Average of Moody's ANPL (\$000)	\$41,367	\$49,490	\$54,885	\$60,061	\$61,691
Net Direct Debt / Full Value (%)	0.9%	0.9%	0.8%	0.7%	0.6%
Net Direct Debt / Operating Revenues (x)	0.3x	0.3x	0.3x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.3%	4.0%	4.3%	4.4%	4.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.1x	1.3x	1.4x	1.5x	1.5x

Data as of June 30 fiscal year end.

Source: Moody's Investors Service, audited financial statements

Profile

Kinderhook Central School District is located primarily in [Columbia County](#) (Aa3) and a part of [Rensselaer County](#) (Aa3) in upstate New York, approximately 20 miles south of Albany. The district provides public education for grades K-12 to approximately 1,783 students, and operates one primary school, one middle school, and one high school building.

Detailed credit considerations

Economy and tax base: Moderately-sized, stable tax base

The district's \$1.4 billion primarily residential and agricultural tax base is expected to remain stable with incremental residential and commercial growth as evidenced in the past five years. Full value has not yet recovered to the pre-recession high of approximately \$1.5 billion, but has increased at a five year compound annual growth rate of 2.9%. Many residents commute to the Albany area for employment.

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Enrollment is decreasing at a three-year compound annual rate of 1.8%, in line with demographic trends in the region. Management is working with a consultant to map enrollment trends, and expects this gradual decrease to continue. Management notes that prior studies and predictions have been accurate.

The district's resident wealth and income levels are above average. Median family income is 107.3% of the state median and 116.6% of the national median. In 2018, the median home value in the district was approximately \$225,600 representing 74.7% and 110.1% of the state and national medians.

The coronavirus has driven an economic slowdown. We forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. The district's tax base does not have an outsized exposure to industries or taxpayers likely to be affected by the coronavirus.

Finances and liquidity: Stable financial position

The district's financial position is expected to remain adequate due to a history of conservative budgeting and careful expense management. As New York school districts face a possible state aid cut of up to 20% in fiscal 2021, contingent upon the state's receipt of additional federal funding due to the pandemic, management has pre-identified possible expenditure cuts and has placed a hold on one-time expenditure items to prepare for a possible reduction in state aid.

In fiscal 2020, the district saw a \$227,000 operating fund (inclusive of the General Fund and Debt Service Fund) surplus inclusive of a \$830,000 transfer to the Capital Fund. The district ended the year with available operating fund balance of \$5.6 million, representing a healthy 13.6% of operating revenue. The original budget included a \$586,000 appropriation from fund balance and reserves. Due to the pandemic driven school closures in the fourth quarter of the school year, management outperformed budget in nearly every expenditure line item.

The fiscal 2021 budget includes 2.57% increase in the property tax levy, at the cap, and a 1.89% budget-to-budget expenditure increase largely in line with the prior year's budget. It also included a \$825,000 appropriation from fund balance and reserves. One potential risk is that state foundation aid was held flat from fiscal 2020 budgeted amounts. However, management has developed a plan to reduce one-time purchases and expenditures should there be an indication of a decrease in state aid. In the case of a 20% decrease in state aid, the district would have an approximate \$3 million revenue gap. Management notes it has identified up to about \$1.5 million in possible expenditure reductions, and the remaining \$1.5 million gap can be filled by additional appropriations from fund balance. Any percentage of eventual reductions to state aid will be balanced by a portion of expenditure reductions and also by appropriating additional fund balance. So far, no state aid has been withheld. Management confirms that operations are currently tracking well to budget.

The district's primary revenue sources include property taxes (58.9% of fiscal 2020 operating revenues), which are guaranteed in full by the county and have not experienced any material delays or delinquencies and state aid (37.5%).

Liquidity

Liquidity decreased in fiscal 2020 from the prior year, with operating net cash decreasing from \$5.5 million to \$4.2 million, representing an adequate 10.4% of operating revenue. The decrease is mainly attributed to a \$894,000 increase in funds due from the Capital Fund to the General Fund. The position had cleared soon after the end of the fiscal year.

Debt and pensions: Elevated total long-term liabilities but manageable fixed costs

The district has a below average debt burden that is expected to increase with future issuance plans but remain manageable. Post issuance of the 2020 Refunding Serial Bonds, the district will have \$22.8 million in net direct debt outstanding, representing a manageable 1.6% of full value and 0.6x operating revenue. The district has \$11.6 million authorized unissued debt remaining, which the district plans to bond in the summer of 2022. The district has historically been able to receive state building aid reimbursements for approved capital spending at 73.5% of debt service, which can be used to help offset debt costs.

Legal security

The 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 92% 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 unfunded pension liability is manageable and increasing. The unfunded retiree healthcare (OPEB) liability is elevated and increasing.

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 table below summarizes the fiscal 2019 long-term liabilities and fixed costs.

Exhibit 2

Manageable debt and pension burdens, elevated OPEB burden

	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	40,902		
Reported Unfunded Pension Liability	840	2.05%	7.05%
Moody's Adjusted Net Pension Liability	69,311	169.46%	3.44%
Reported Net OPEB Liability	123,815	302.71%	2.21%
Moody's Adjusted Net OPEB Liability	112,951	276.15%	2.70%
Pension Contribution	1,913	4.68%	
Pension Tread Water Gap	N/A		
OPEB Contribution	3,211	7.85%	
Net Direct Debt	8,323	20.35%	
Debt Service	1,826	4.46%	
Total Fixed Costs	6,950	16.99%	

[1] A positive pension tread water gap reflects a pension contribution less than the amount required to prevent the unfunded liability from increasing if all plan assumptions are realized. A negative tread water gap reflects a contribution greater than the amount required to keep the unfunded liability from increasing if all assumptions are realized.

Source: Moody's Investors Service, audited financial statements

Favorably, management does not expect to defer any portion of its annual pension contributions. The district's fiscal 2020 pension contribution of \$1.9 million accounted for 4.7% of operating revenues. Pension tread water calculations are not yet available for fiscal 2020.

The district's fiscal 2020 adjusted net pension liability (ANPL)¹, under our methodology for adjusting reported pension data, totaled \$69.3 million representing a manageable 5.0% of full value and 1.7x operating revenue. Failure to achieve the assumed rate of return in the state sponsored pension plan could result in higher future pension contributions.

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 \$3.2 million representing 7.9% of operating revenue. Absent legislation, or changes to benefits, the district's total OPEB liability of \$113.0 million, which is an elevated 7.9% of full value and 3.0x 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 2019 fixed costs, comprised of pensions contributions, OPEB contributions and debt service, represented a manageable 17.0% of operating revenue. Increased pension or OPEB contributions could result in higher fixed costs in the future.

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, the district's most significant exposure is its high risk to hurricanes and water stress, both of which could negatively affect tax base growth. This assessment is based on evaluation of risks to Ontario County. 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 towns' and counties' 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 below average poverty rate of 9.3%, compared the national average of 14.1%. As of July 2020, the unemployment rate within Columbia County was 7.3%, which is below the state rate of 12.6% and the national rate of 8.5%.

Governance

District management has demonstrated a history of conservative budgeting and expense management, with actual expenditures below budgeted amounts within consecutive years in recent history, which has resulted in a healthy financial position.

New York school districts have an institutional framework score ² of "Aa", which is strong. 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 lower 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 low, or less than 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government'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 local government credits.

Exhibit 3

Kinderhook Central School District, NY

Scorecard Factors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$1,430,714	Aa
Full Value Per Capita	\$102,870	Aa
Median Family Income (% of US Median)	116.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	13.6%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	2.7%	A
Cash Balance as a % of Revenues	10.4%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-4.3%	Baa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.6%	Aa
Net Direct Debt / Operating Revenues (x)	0.6x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.3%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
Notching Adjustments:^[2]		
Other Scorecard Adjustment Related to Debt and Pensions: Elevated unfunded OPEB liability (3.02x operating revenues)		Down
	Scorecard-Indicated Outcome	A1
	Assigned Rating	Aa3

[1] Economy measures are based on data from the most recent year available.

[2] Notching factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Source: US Census Bureau, Moody's Investors Service

Endnotes

- Moody's ANPL reflects certain adjustments we make 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.
- 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 \(July 2020\)](#) methodology report for more details.

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