

RatingsDirect®

Summary:

Hendrick Hudson Central School District, New York; General Obligation

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Credit Profile

Hendrick Hudson Cent Sch Dist GO

Long Term Rating

A+/Stable

Affirmed

Underlying Rating for Credit Program

NR

Rationale

S&P Global Ratings affirmed its 'A+' rating on Hendrick Hudson Central School District, N.Y.'s general obligation (GO) bonds. The one-year outlook is stable.

The district will likely face significant challenges as a result of the Indian Point Energy Center planned closure and uncertainty if the district can effectively implement its sophisticated multiyear plan without significantly reducing credit quality. Despite that, we expect that district finances will remain stable over our one-year outlook horizon as the Board of Education increases its available reserves and begins implementing cost controls in preparation for the fiscal 2021 revenue loss. Hendrick Hudson has historically received approximately one-third of its revenue from a payment-in-lieu-of-taxes (PILOT) agreement with Indian Point. Starting in fiscal 2021, scheduled annual revenue from the PILOT will decrease from \$24.2 million to \$2.6 million by fiscal year 2024. The district has identified a number of expenditure reductions and revenue increases to make up this funding, although it also plans to use substantially all of its available fund balance by fiscal year-end 2024.

The rating reflects our opinion of the district's general creditworthiness, including its:

- Primarily residential property tax base with access to employment opportunities in New York City and regional economic centers, resulting in very strong income and wealth;
- Good management with well-embedded policies and planning;
- Strong available reserves; and
- Low debt that we expect to decrease even more over time, coupled with rapid debt amortization.

We believe somewhat offsetting these strengths are the district's:

- Historical reliance on PILOT revenue from the nearby Indian Point nuclear facility, and
- Increasing pension and other postemployment benefit (OPEB) costs.

The district's faith-and-credit pledge secures the bonds.

Finances

Following the planned shutdown of Indian Point, Hendrick Hudson will lose approximately \$22 million in annual revenue within five years. Specifically, its cumulative annual revenue loss will total (in rounded numbers) \$3 million in fiscal 2021, \$10 million in fiscal 2022, \$18 million in fiscal 2023, and \$22 million in 2024 and every year thereafter. In fiscal 2018, district general fund revenue totaled \$76 million, so the \$22 million lost would be approximately 28% of that revenues. Officials have worked with external consultants and the state comptroller's office to identify ways to increase revenue or reduce expenditures to offset the loss of 90% of PILOT revenue. The district maintains a formal multiyear financial plan that outlines these efforts.

Under the plan, the district will use expected operating income to grow unassigned reserves and a newly created tax stabilization fund to a high of \$9.2 million at fiscal year-end 2022. Thereafter, it will draw down all of its unassigned fund balance and the tax stabilization fund by fiscal year-end 2024 before beginning to rebuild reserves in fiscal 2025.

New York State has made funding from the Electric Generation Facility Cessation Mitigation Program available to Hendrick Hudson. District officials estimate they will receive a minimum of \$17.5 million and a maximum of \$64.0 million in total. The district currently plans to use cessation funds from fiscal years 2021 to 2028. As it loses PILOT revenue, it may also become eligible for greater state aid under the school funding formula.

The district also plans to realize cost savings through several changes to its programs. One avenue for potential cost savings discussed is a change from a neighborhood school model to the Princeton Plan, wherein all students of a given grade would attend the same school regardless of neighborhood. The district also plans to consolidate buses and reduce various programs. It has begun reducing staff through attrition. Finally, a planned reduction in outstanding debt over time should lower debt service costs.

Despite these changes, the bulk of the revenue replacement plan will come from property tax increases. Between fiscal years 2021 and 2029, the multiyear plan includes tax increases between 4.4% and 8.0% each year. While these increases would likely not require a supermajority voting approval under the tax cap formula, we believe annual voter approval of these sizable increases may become politically unpalatable. Hendrick Hudson does not have a history of levy hikes of this magnitude since the implementation of the state tax cap, although it did implement similar ones before that. However, even with these increases, the district's tax rate could remain below or comparable to those of its neighboring school districts. It is also possible that the district could renegotiate its PILOT agreement with Indian Point acquirer Holtec International in a way that could provide greater revenue than is currently projected.

The district's available fund balance of \$8.0 million (which consists of the assigned and unassigned general fund balance) is strong, in our view, at 11.0% of general fund expenditures at fiscal year-end (June 30) 2018. It reported a surplus operating result of 3.9% of expenditures in 2018. The district depends primarily on property taxes for general fund revenue (46.6%), followed by state aid (8.1%).

New York State aid for school districts is offered on both a foundational and a categorical expense-driven basis. Foundational aid in New York State consists of more than two-thirds of state school aid and a district's aid cannot be reduced below prior-year levels. Categorical expense-driven aid, for expenses such as transportation and building construction, is based on spending, wealth, and need factors and is therefore less affected by enrollment trends. For these reasons, we believe that changes to enrollment in the near term are unlikely to have significant effect on state aid

receipts for the district. In 2019, enrollment came in at 2,349.

Management

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Highlights include:

- Conservative budgeting and the use of historical trend analysis when making revenue and expenditure assumptions;
- Monthly-to-actual reports to the board;
- A detailed 12-year financial plan;
- A building conditions survey every five years; and
- Following the state's policy of keeping a maximum of unassigned fund balance at 4% of expenditures.

The district currently lacks a formal debt management policy, although additional debt plans are discussed and considered well in advance of issuance.

Economy

Hendrick Hudson CSD is 35 miles north of New York City and encompasses 22 square miles in northwestern Westchester County. Residents of the primarily residential district find employment countywide or commute to jobs in New York City.

Hendrick Hudson CSD serves an estimated population of 16,529. Median household and per capita effective buying incomes in the district are very strong at 145% and 156% of national levels, respectively. Total \$2.5 billion market value in 2018 is extremely strong, in our view, at \$149,090 per capita. The 1.0% increase since 2016 brought assessed value (AV) to \$44.9 million in 2018 (the most recent year available). The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 11.9% of AV.

Debt

At 1.0% of market value and \$1,449 per capita, overall net debt is low, in our view. With 88% of the district's direct debt scheduled to be retired within 10 years, amortization is rapid. Although amortization is rapid, debt service carrying charges were only 6.9% of total governmental fund expenditures (excluding capital outlay) in fiscal 2018, which we consider low.

The district plans to issue approximately \$18.5 million over the next two years for capital projects, although it does not have additional debt plans over the next four years, and we expect that both debt service expenditures and total debt outstanding will decrease over the next ten. The district does not have any direct-purchase debt.

Pension and other postemployment benefit liabilities

The district provides pension benefits through the New York State Employees' Retirement System and the New York State Teachers' Retirement System, both of which are state-administered, defined-benefit pension plans. It paid its full required contribution of \$4.3 million toward its pension obligations in fiscal 2018, or 5.6% of total governmental expenditures. It also contributed \$5.2 million, or 6.8% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled

12.4% of total governmental fund expenditures in 2018.

Outlook

The one-year stable outlook reflects our opinion that the financial profile of the district will improve over the next year in anticipation of revenue loss starting in fiscal year 2021. Extensive financial planning and an array of cost-control measures provide additional stability over this one-year horizon.

Downside scenario

Over the next five years, however, we consider it likely that pressure from declining PILOT revenue will require the district to use its reserves, potentially reducing the fund balance to a level that would no longer supports its current rating level. Furthermore, if financial performance deteriorates faster than anticipated even with ongoing receipt of PILOT revenue, we could lower the rating.

Upside scenario

We view this scenario as unlikely over the one-year outlook period.

Ratings Detail (As Of July 24, 2019)		
Hendrick Hudson Cent Sch Dist GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	
Hendrick Hudson Cent Sch Dist GO (National)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	
Hendrick Hudson Cent Sch Dist GO		
<i>Long Term Rating</i>	A+ /Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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