**New Issue: Moody's upgrades Huntington UFSD's (NY) GO rating to Aa1 from Aa2**

Global Credit Research - 30 Mar 2015

**Assigns Aa1 to $2.3M GO Refunding Bonds Series 2015**

HUNTINGTON UNION FREE SCHOOL DISTRICT, NY
Public K-12 School Districts
NY

Moody's Rating

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<td>School District Refunding Serial Bonds - Series 2015</td>
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- Sale Amount: $2,325,000
- Expected Sale Date: 04/13/15
- Rating Description: General Obligation

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'^GO

Moody's Outlook: NOO

NEW YORK, March 30, 2015 --Moody's Investors Service has assigned a Aa1 rating to Huntington Union Free School District's (NY) $2.3 million General Obligation School District Refunding Serial Bonds Series 2015. Concurrently Moody’s has upgraded to Aa1 from Aa2 the rating on the district's previously issued outstanding GO parity debt.

**SUMMARY RATING RATIONALE**

The upgrade to Aa1 reflects a solid financial position evidenced by a multi-year trend of structurally sound operations, sizable tax base with above average demographics and a manageable debt burden.

**OUTLOOK**

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

**WHAT COULD MAKE THE RATING GO UP**

- Increased reserves
- Significant growth in tax base

**WHAT COULD MAKE THE RATING GO DOWN**

- Trend of structural imbalance leading to severe reserve declines.

**STRENGTHS**

- Strong financial position with adequate reserves
- Manageable debt burden

**CHALLENGES**

- Tax base value decline
RECENT DEVELOPMENTS
Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZABLE TAX BASE WITH MODERATE VALUE DECLINE

The district's $5 billion tax base will likely continue to experience challenges, albeit at a more moderate pace, given continued housing market weakness. The district is located in Suffolk County (A3/stable outlook) with easy accessibility to employment opportunities in the county and New York City (rated Aa2/stable outlook).

Over the last five years taxable values have declined at an average annual rate of 3.7% driven by successful residential tax appeals. District officials report no major tax appeal claims outstanding and anticipate few major challenges in the medium term. Wealth indices are stronger than the nation and state wide averages and full value per capital is a favorable $144,853.

Although the base is primarily built out, officials report an expected large scale residential property development along with one hotel in the near to medium term.

FINANCIAL OPERATIONS AND RESERVES: STABLE FINANCIAL POSITION WITH ADEQUATE RESERVES

The financial position will remain strong given management's commitment to healthy reserve levels. Total General Fund balance averaged approximately 17% over the last five fiscal years and achieved operating surpluses in the past six fiscal years. The district realized a $551,000 operating surplus in fiscal 2014 the result of conservative expense projections on pension, health insurance, and special education costs. Total fund balance increased to $23.2 million or 20.7% of General Fund revenues. Assigned and unassigned fund balance totaled $7 million or 6.3% of General Fund revenues.

The 2015 budget included an $800,000 appropriation of fund balance which it plans to fully replenish. District officials have begun preliminary 2016 budget planning and have projected flat state aid, and an increased fund balance appropriation totaling $1.1 million.

The majority of revenues are derived from property taxes which accounted for 88% of fiscal 2014 revenues and are guaranteed in full by Suffolk County.

Liquidity

The district's cash position continues to improve and totaled $34.3 million (30.6% of General Fund revenues) in 2014.

DEBT AND PENSIONS: MANAGEABLE DEBT POSITION DESPITE ABOVE-AVERAGE PENSION LIABILITIES

The debt burden (0.1% of full value) is expected to remain manageable over the near-term given no borrowing plans and rapid debt retirement. The overall debt burden of 1.5% includes overlapping obligations. The amortization of principal is above average, with 88% retired within 10 years.

Debt Structure

All of Huntington Union Free School District's outstanding debt is fixed rate and amortizes over the long term.

Debt-Related Derivatives

The district has no derivatives.

Pensions and OPEB

The district's pension burden is slightly higher than average for New York school districts although annual required contributions are expected to decrease in fiscal 2016. Huntington Union Free School District participates in the New York State and Local Employees Retirement System and the New York State Teachers Retirement System, two multi-employer defined benefit retirement plans sponsored by the State of New York (rated Aa1/stable). The district fully funds its Annual Required Contribution (ARC) for both plans and management has no plans to enter
into the pension smoothing program. The combined net pension liability, under Moody’s methodology for adjusting reported pension data, is $214 million, or an above-average 1.96 times General Fund revenues. Moody’s uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the reported liability information, but to improve comparability with other rated entities. We determined the district’s share of liability for the state administered plans in proportion to its contributions to the plans.

The unfunded actuarial accrued liability for OPEB as of July 1, 2012 was $165 million. The district contributed the pay go portion of its $14.5 million ARC in 2014.

MANAGEMENT AND GOVERNANCE

Management practices conservative budgeting as evidenced by operating surpluses in the last six fiscal years. As reflected in the A Institutional Framework Score, New York School districts are limited in revenue raising flexibility and cost cutting measures. Revenues are almost totally comprised of local property taxes and state aid, which is determined by a state funding formula. The state limits the annual growth in the school district property tax levy to the lower of 2% or the rate of inflation. However, school district property tax revenue is highly predictable given that full collection is guaranteed by counties and towns. Expenditures are also relatively predictable, although strong collective bargaining groups make it difficult to reduce personnel expenses.

KEY STATISTICS
- 2015 Full Value: $5 billion
- 2014 Full Value Per Capita: $144,835
- Median Family Income as % of US: 175%
- Fiscal 2014 Fund balance as a % of Revenues: 20.7%
- 5-Year Dollar Change in Fund Balance as % of Revenues: 6.74%
- Fiscal 2014 Cash Balance as % of Revenues: 30.6%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 15.30%
- Institutional Framework: A
- 5-Year Average Operating Revenues / Operating Expenditures: 1.02x
- Net Direct Debt as % of Full Value: 0.1%
- Net Direct Debt / Operating Revenues: 0.26x
- 3-Year Average of Moody’s ANPL as % of Full Value: 1.74%
- 3-Year Average of Moody’s ANPL / Operating Revenues: 1.44x

OBLIGOR PROFILE

Huntington UFSD is located in the north central section of the Town of Huntington (the "Town"), bordering Huntington Bay and extending south into Huntington Station. The district provides public school education for grades K-12 to residents of the District.

LEGAL SECURITY

Debt service is secured by the district’s General Obligation unlimited tax pledge.

USE OF PROCEEDS

Proceeds of the Series 2015 bonds will refund the districts outstanding 2006 bonds for an expected net present value savings in excess of 7% without extending debt maturity.

PRINCIPAL METHODOLOGY
The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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