

CREDIT OPINION

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 Rate this Research

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Lake George Central School District, NY

Update to credit analysis

Summary

[Lake George Central School District](#) (Aa2) benefits from a sizeable and affluent tax base and adequate reserves maintained over several years. The district's long term liabilities and fixed costs are manageable inclusive of the current issuance and the district's limited future issuance plans. The district's local economy, which revolves around tourism and recreation at Lake George, may be impacted by the coronavirus-related shutdown and economic downturn but financial impact to the district is not an immediate credit pressure.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action but could affect the district in fiscal 2021 which begins July 1. The district depends on state aid for approximately 10.2% of its operating revenue. The State of New York (Aa1 negative) 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 use of some of the district's financial reserves, property tax increases and/or expense cuts. The situation surrounding 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 school district changes, we will update the rating and/or outlook at that time.

Credit strengths

- » Sizeable tax base and strong resident wealth and incomes
- » Reserves and liquidity in line with rating category
- » Low debt burden

Credit challenges

- » Older resident population and declining enrollment
- » Somewhat elevated fixed costs

Rating outlook

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

Factors that could lead to an upgrade

- » Expansion of tax base and local economy

- » Material growth in reserves and liquidity
- » Stabilized enrollment trend

Factors that could lead to a downgrade

- » Deterioration of reserves and liquidity
- » Significant growth in long term liabilities and fixed costs

Key indicators

Exhibit 1

Lake George Central School District	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$2,739,964	\$2,838,999	\$2,871,356	\$2,970,916	\$2,970,916
Population	6,648	6,534	6,542	6,498	-
Full Value Per Capita	\$412,149	\$434,496	\$438,911	\$457,205	-
Median Family Income (% of US Median)	117.2%	120.5%	123.3%	129.1%	-
Finances					
Operating Revenue (\$000)	\$20,487	\$20,957	\$21,586	\$21,982	\$22,407
Fund Balance (\$000)	\$6,557	\$6,269	\$6,427	\$6,333	\$5,279
Cash Balance (\$000)	\$4,884	\$4,687	\$4,507	\$4,182	\$4,116
Fund Balance as a % of Revenues	32.0%	29.9%	29.8%	28.8%	23.6%
Cash Balance as a % of Revenues	23.8%	22.4%	20.9%	19.0%	18.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$5,025	\$6,770	\$6,050	\$5,340	\$4,620
3-Year Average of Moody's ANPL (\$000)	\$26,435	\$21,613	\$27,954	\$31,253	\$33,879
Net Direct Debt / Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	0.2x	0.3x	0.3x	0.2x	0.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.0%	0.8%	1.0%	1.1%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.0x	1.3x	1.4x	1.5x

[1] 2020 total full value \$3,007,427,000

Source: Moody's Investors Service, audited financial statements, US Census Bureau

Profile

Lake George Central School District is located in the eastern Adirondack Mountains area, equidistant between the [City of Montréal](#) (Aa2 stable) and [New York City](#) (Aa1 negative) and about 55 miles north of the City of Albany. The district serves the Towns of Bolton, Lake George and [Queensbury](#) (Aa2) in Warren County and the Town of Fort Ann in [Washington County](#) (Aa3). The district serves an enrollment of 715 students within one elementary school and one junior-senior high school.

Detailed credit considerations

Economy and tax base: Sizeable tax base with tourism and recreation-based local economy

Lake George Central School District's \$3.0 billion tax base will likely remain stable in the near to medium term. The district's community is notable for recreation associated with Lake George including beaches, parks, hiking and biking trails, restaurants and lodging. Several of the district's larger taxpayers are hotels and recreation enterprises. Tax base valuation has increased in each of the past four years driven by improving property values. The towns of Lake George and Bolton are currently reassessing property

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values which will probably result in an increase in full value. The last reassessment was in 2012. New development within the district is limited.

The district's median family income is robust at 118.8% and 129.1% of the state and US medians respectively. Median home values have increased 21.5% since 2010 to a median value of \$303,200 representing 113.8% and 167.9% of the state and US medians respectively.

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to the tourism, healthcare, retail, oil and gas and international trade sectors could suffer particularly severe impacts.

Financial operations and reserves: Strong reserves and low state aid exposure

Lake George Central School District's reserves will likely remain stable and appropriate for the rating category for the near term. The district closed fiscal 2019 with \$4.1 million in available fund balance, equal to 18.4% of operating revenues. The district anticipates closing fiscal 2020 with an operating surplus of around \$800,000, bolstered by expense reductions due to school closure in response to the coronavirus crisis.

Unless the federal government provides additional assistance, the state will likely reduce state aid to school districts in 2021. State aid accounted for 10.2% of operating revenues in fiscal 2019. In response to possible reductions in state aid in fiscal 2021, the district incorporated a 15% cut in foundation aid into its 2021 budget and is exploring further expenses reductions. The budget does not include any fund balance appropriations. The district has obtained authorization for the issuance of tax anticipation notes should a delay in tax receipts disrupt cash flow. The county guarantees property tax payment in whole in the state of New York. Property tax receipts may also increase as new assessment figures for the towns of Lake George and Bolton will be used for September 2020 school taxes.

LIQUIDITY

Given conservative budgeting and reliance on local property tax for most of its revenue the district's liquidity will likely remain strong. At the close of fiscal 2019 cash and investments totaled \$5.3 million representing 23.6% of operating revenues.

Debt and pensions: Manageable long term liabilities and fixed costs

Lake George Central School District's debt burden (1.0% of full value) will remain low in the near to medium term. The district's future issuance plans are fairly limited. The district will complete its building condition survey later this year which will be used to assess future capital needs. The district does not anticipate any significant capital or issuance needs in the medium term.

DEBT STRUCTURE

All of the district's debt is fixed rate. All long-term debt is secured by an unlimited general obligation pledge and by the state's 99b state aid intercept program.

DEBT-RELATED DERIVATIVES

The district is not party to any interest-rate swap or other derivative contracts.

PENSIONS AND OPEB

The district's pension and retiree healthcare (OPEB) liabilities are manageable at this time but could represent a long term credit challenge.

Exhibit 2

Unfunded pensions and OPEB liabilities are significantly larger than debt, but manageable

	Amount (\$ thousands)	% of Operating Revenues	Discount Rate
Operating Revenue	22,407		
Reported Unfunded Pension Liability	-438	-1.95%	7.21%
Moody's Adjusted Net Pension Liability	31,767	141.77%	4.14%
Reported Net OPEB Liability	58,511	261.13%	3.87%
Moody's Adjusted Net OPEB Liability	49,813	222.31%	4.14%
Pension Contribution	1,192	5.32%	-
OPEB Contribution	2,469	11.02%	-
Net Direct Debt	5,025	22.43%	-
Debt Service	1,010	4.51%	-
Total Fixed Costs	4,671	20.85%	-

[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

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 2019 required contribution to the plans, a total of \$1.2 million representing 5.3% of operating revenues. The contribution was in excess of the "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 7.21%. Sharp 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. The district's adjusted net OPEB liability is elevated but manageable at \$49.8 million representing 222% of operating revenue. The district's 2019 OPEB contribution totaled \$2.5 million representing 11.0% of operating revenues. As the number of retirees increases and age, annual OPEB expense will likely increase.

Fiscal 2019 fixed costs, comprised of pensions, OPEB and debt service, totaled \$4.7 million representing a manageable but somewhat elevated 20.9% of operating revenues. Future increases in pension and OPEB contributions could result in higher future fixed costs.

ESG considerations

Environmental

The district is located in an area assessed to have high risk of water stress and hurricane exposure and medium risk of extreme rainfall events. The district's low debt burden and stable finances somewhat offset risk of facilities damage.

Social

Enrollment is projected to continue to decline. The district's 2020 enrollment of 715 students is expected to decline to 550 by 2025, a loss of 23.1%. The district's two educational facilities have a total capacity of 1,570 and may allow the district to explore "right-sizing" its facilities for expense reductions in the future.

The median age of the district is 54 years old, high than the US median of 38. The district has a lower proportion of school age children and children under five at 12.9% and 2.9% respectively compared to the US rates of 16.6% and 6.1%. The proportion of retirement age residents is nearly double at 30.1% compared to 15.2% nationally. While older resident populations are common in areas with a significant contingent of seasonal homes, an aging population and fewer families with school age children could limit tax base and general economic growth as well as enrollment.

Governmental

Management evidences sound budgetary practices by its well-maintained reserves and liquidity and its conservative expectations for state aid reductions in 2021.

New York School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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 greater than 25% of expenditures. New York State has public sector unions and the additional constraint of the Triborough Amendment, which limits the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, or between 5-10% 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

Lake George Central School District, NY

Scorecard Factors	Measure	Score
Economy/Tax Base (30%)^[1]		
Tax Base Size: Full Value (in 000s)	\$3,007,427	Aa
Full Value Per Capita	\$469,031	Aaa
Median Family Income (% of US Median)	129.1%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	18.4%	Aa
5-Year Dollar Change in Fund Balance as % of Revenues	-2.9%	Baa
Cash Balance as a % of Revenues	23.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	-3.7%	Baa
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	0.3x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[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: Moody's Investors Service, audited financial statements, US Census Bureau

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