September 22, 2010

Summary:

Sachem Central School District, New York; General Obligation

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Table Of Contents

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Credit Profile		
US$7.205 mil sch dist rfdg serial bnds ser 2010 due 04/15/2011-2015		
Long Term Rating	AA+/Stable	New
Sachem Cent Sch Dist GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating and stable outlook to Sachem Central School District, N.Y.'s series 2010 refunding bonds. We also affirmed the 'AA+' long-term rating on the district's outstanding general obligation (GO) bonds.

The rating reflects the following factors:

- A primarily residential area that participates in the diverse Long Island regional economy;
- Historically strong tax base growth, although the tax base has declined in the last two years;
- Strong financial position with increases in general fund reserves over the last four years; and
- A manageable overall debt burden despite significant debt issuance over the past few years.

The series 2010 bonds are secured by the unlimited tax general obligation pledge of the district. Bond proceeds will be used to partially refund the district's series 2002 bonds.

Sachem Central School District, located in west-central Suffolk County approximately 40 miles east of New York City, is one of the five largest suburban school districts in New York State. The district's tax base is primarily residential. The district encompasses 24 square miles and includes portions of the towns of Brookhaven, Islip, and Smithtown, as well as the village of Lake Grove. The population as of 2009 was about 84,469.

The district operates 18 schools: 12 elementary, four junior high, and two high schools. Enrollment for fiscal 2010 was 14,723, slight decrease from 2009 due to the fact that the district no longer includes students bussed to private schools in its enrollment. Enrollments are projected to remain relatively flat over the next five years. While the district's assessed value has only grown moderately due to a lack of revaluation for several of the towns that underlie the district, market value increased 21% from 2006 to 2008. However, market value fell 3.8% in fiscal 2009 and 6.9% in fiscal 2010. Full market value in 2010 was $11.3 billion. Market value per capita remains extremely strong at $132,765. Information on tax base diversity was provided for the three towns individually; the top 10 taxpayers account for 15% or less of assessed valuation in each town.

Wealth and income levels are above the national average, with the district's median household effective buying income at 155% of the state and 156% of the nation. County unemployment in July 2010 was 7.4%, compared with 8.4% for the state.

The district's financial position is good, with operating surpluses and growth in general fund reserves in the last four years. The level of unreserved fund balance to general fund expenditures was 5.8%, 7.3%, and 8.6% in fiscals 2007, 2008, and 2009, respectively. Fiscal 2009 ended with an operating surplus of $4 million and an unreserved fund balance of $22.9 million, with $12 million designated for 2010 expenditures and $10.9 million in undesignated, unreserved fund balance, which is equal to 4% of expenditures. The district maintains reserves in the general fund for unemployment insurance, workers' compensation insurance, and employee benefits. In fiscal 2009, property taxes accounted for 47% of revenues while state aid accounted for 44% of revenues. School district budgets have been passed by voters in the last five years with no property tax increases.

Management projects that fiscal 2010 ended (June 30) with an unreserved fund balance of $28 million, which includes $14.3 million designated for 2011 expenditures, $2.5 million for capital projects, and $11.2 million in undesignated, unreserved fund balance. For fiscal 2011, the district raised the property tax levy by 1%, the first property tax increase in five years. Based on recent passage of the New York State budget, state aid is projected to decline 1%, or $1.5 million. The district has implemented an early retirement incentive program that will $5 million in 2011. Voters have approved the fiscal 2011 budget.

The district's management practices are considered "good" under Standard & Poor's Financial Management Assessment, indicating that practices exist in most areas, although not all may be formalized or regularly monitored by government officials. The district uses historical revenue and expenditure trends in developing its budget and reports its budget-to-actual performance monthly to the school board. It has a formal investment policy and reports monthly to the board on investment activity. The district hires outside consultants to develop five-year facilities plans required by the state and reviews these plans every two years. The district maintains the minimum undesignated fund balance reserves outlined by state statute, but does fund other reserves authorized by state statute. There is no formal five-year financial plan that is deemed comprehensive. The district does not have formal debt-management guidelines beyond what is prescribed by state statute; however, it does evaluate various affordability parameters when authorizing new bond authorizations.

The district's total overall debt burden is moderate at $3,536 per capita and low at 2.7% of full value. The district annually issues tax anticipation notes (TANs) for cash flow purposes and recently issued $48 million in TANs due in June 2011. This 2010 TAN represents an increase from 2009's TAN issuance but is not significantly higher than amounts issued in recent years. Debt amortization is average, with 51% retired in 10 years and 100% retired by 2031. Debt carrying charges are low at 7.4% of expenditures in 2009.

District payments to state retirement funds totaled $14.3 million in 2009, or 5.3% of expenditures. As of March 2007, the district's unfunded other postemployment benefits liability was $322 million. In fiscal 2009, the annual required contribution was $31 million, or 12% of expenditures. The district funds these costs on a pay-as-you-go basis and paid $9.4 million in 2009, or 3.5% of expenditures.

Outlook

The outlook is stable. Continued active budget management and a good level of fund balance reserves will be important factors in maintaining the rating. The district's substantial economic base and manageable debt burden are also important credit considerations at the current rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of September 22, 2010)		
Sachem Cent Sch Dist GO		
Long Term Rating	AA+/Stable	Affirmed
Sachem Cent Sch Dist GO		
Long Term Rating	AA+/Stable	Affirmed
Sachem Cent Sch Dist GO (MBIA) (National)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Sachem Cent Sch Dist		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed
Sachem Cent Sch Dist GO		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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