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Pennsbury School District, PA

Update to credit analysis

Summary

Pennsbury School District's (Aa2) solid financial position will exhibit relative stability in the near term. The district's sizable taxable base is poised for moderate organic growth moving forward, while its mid-ranged debt burden will likely grow in the middle term due to sizable capital plans.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. Pennsbury School District is reliant on local property tax revenue, which is stable year over year. Accordingly, the district is not susceptible to immediate material credit risks related to coronavirus. The longer term impact will depend on both the severity and duration of the crisis. The situation surrounding coronavirus is rapidly evolving. If our view of the credit quality of Pennsbury School District changes, we will publish our updated opinion at that time.

Credit strengths

» Sizable and growing taxable base

» Strong wealth and income levels

» Healthy reserves and liquidity

» Long term financial planning

Credit challenges

» Trim reserves relative to budget size

» Significant capital plans

Rating outlook

Outlooks are not typically assigned to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

» Multiyear trend of material growth in reserves and liquidity

» Material debt burden reduction

Factors that could lead to a downgrade

» Material decline in reserves and liquidity

» Material reduction in tax base size

» Significant additional leverage leading to outsize debt burden

Key indicators

dExhibit 1

Pennsbury School District, PA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$7,715,797	$7,768,577	$7,813,604	$7,870,566	$8,039,997
Population	70,990	70,848	70,751	70,842	70,842
Full Value Per Capita	$108,689	$109,651	$110,438	$111,100	$113,492
Median Family Income (% of US Median)	161.2%	161.0%	157.8%	156.5%	156.5%
Finances					
Operating Revenue ($000)	$180,943	$188,244	$195,091	$202,566	$208,130
Fund Balance ($000)	$14,273	$17,162	$17,591	$18,289	$17,506
Cash Balance ($000)	$33,687	$36,767	$36,030	$38,765	$38,591
Fund Balance as a % of Revenues	7.9%	9.1%	9.0%	9.0%	8.4%
Cash Balance as a % of Revenues	18.6%	19.5%	18.5%	19.1%	18.5%
Debt/Pensions					
Net Direct Debt ($000)	$152,438	$155,083	$174,931	$174,814	$165,660
3-Year Average of Moody's ANPL ($000)	$264,419	$268,707	$291,977	$318,101	$325,968
Net Direct Debt / Full Value (%)	2.0%	2.0%	2.2%	2.2%	2.1%
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.9x	0.9x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.4%	3.5%	3.7%	4.0%	4.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.4x	1.5x	1.6x	1.6x

Sources: Moody's Investors Service, US Census Bureau, Pennsbury School District audited financial statements

Profile

Pennsbury School District is located 29 miles northeast of Philadelphia (A2 stable). The district serves 9,593 K-12 students through 11 elementary, three middle, and one high school.

Detailed credit considerations

Economy and Tax Base: Sizable and growing taxable base

Pennsbury School District's large $8.0 billion tax base is expected to continue to grow moderately in the near term, as management reports the ongoing commercial development within the district. Notably, there is a 1,000,000 square foot warehouse that is currently under construction within the district's taxable jurisdiction. While management reports only moderate residential development, strong demand for suburban homes will likely continue to drive property values higher in the near term. The tax base grew by a compound 1.1% annually over the last five years, on average, which trails the average growth rate for school districts across the commonwealth but exceeds that for school districts across the nation.

The coronavirus is driving an unprecedented economic slowdown nationally. 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. Pennsbury School District has limited exposure to these industries.

Financial Operations and Reserves: Healthy reserves and liquidity to persist

The district's reserves will remain healthy in the near to medium term, though they remain trim relative to the size of its budget. Prior to a $2.5 million transfer to the district's (newly established) Debt Service Fund, the district ran a $2.6 million operating surplus in fiscal 2020. This can be compared to a $1.5 million operating deficit that the district originally budgeted for, as wage expenses came in lower than anticipated due to a number of early retirements. Moreover, the district realized approximately $600,000 in savings due to coronavirus-related operational changes including transportation and substitute teacher needs.

Prior to a $2.4 million transfer to the Capital Reserve Fund, the district realized its fifth consecutive operating surplus in fiscal 2019. After said transfer, however, available General Fund balance declined slightly to $17.5 million or 8.4% of revenue. The operating surpluses were driven by local revenue growth despite an absence of significant property tax levy increases, as the taxable base continued to grow. That said, the district continued to see rising instruction costs related to special education. In 2019, special education costs amounted to $39.6 million or 19.0% of the district's budget, an increase from $37.8 million in fiscal 2018. Similarly, the district saw increased charter school tuition costs of $5.3 million compared to $4.9 million in 2018.

LIQUIDITY

Liquidity will remain strong in the near term. At the end of fiscal 2019, the district had net cash of $38.6 million in its General Fund or 18.5% of revenue.

Debt and Pensions: Mid-ranged debt burden with average amortization; significant additional borrowing plans

The district's mid-ranged debt burden will grow in the middle term, as the district reports having $140 million in capital plans over the next decade, much of which will be financed through the issuance of new money debt. After the district issues its Series of 2020 and Series A of 2020 bonds, the latter of which will be for $3 million in new money debt, its debt burden will be $150.9 million or 1.9% of full value, which is below the median for all Pennsylvania school districts (2.9%). That said, it exceeds the national median for school districts (1.5%). Debt service amounted to about $15.4 million or 7.4% of 2019 expenditures, and will remain relatively level (under $16 million annually) for the next five years before declining.

DEBT STRUCTURE

All of the district's debt is fixed rate and amortizes over the long term, with an average 68% of principal maturing over the next ten years.

LEGAL SECURITY

The district’s Series of 2020 and Series A of 2020 bonds are secured by the district’s GOLT pledge, which is subject to the limits of Pennsylvania's Act 1. Other than the district’s Series A of 2018 and Series of 2012 bonds, all of the district’s rated debt is also secured by its GOLT pledge.

The district’s Series A of 2018 and Series of 2012 bonds are secured by its GOULT pledge, as the bonds were issued to refund debt that was incurred prior to the implementation of Act 1 in 2006.

DEBT-RELATED DERIVATIVES

Pennsbury School District is not party to any swaps or other derivatives.

PENSIONS AND OPEB

The district contributes to the Public School Employee Retirement System (PSERS), a multi-employer cost-sharing plan administered by the Commonwealth of Pennsylvania. During fiscal 2019, the district contributed $16.8 million, which was matched in full by the state's reimbursement for half the annual cost. The fiscal 2019 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, was $326.0 million, or an average 1.6 times operating revenues.

Total fixed costs, including debt service, pension contributions, and post-employment health benefits amounted to 16.1% of fiscal 2019 revenue.

ESG considerations:

ENVIRONMENTAL

The district has limited exposure to environmental risks.

SOCIAL

The district's wealth and income indicators are very strong. Median family income is 157% of the nation. Full value per capita is $114,000, compared with the statewide median of $63,000 for school districts. Poverty in the district is well below average for the commonwealth at 4%, while unemployment in Bucks County was 9.7% as of August 2020, which was above average when compared to the nation (8.5%). Notably, unemployment grew significantly since March due to Covid-related shutdowns.

Enrollment in the district declined in the current (2020-2021) school year, as the district moved to an entirely virtual learning environment. Management expects enrollment to return to about 10,000 over the next year. The district does not have a significant number of students attending outside cyber or charter schools relative to its total enrollment.

GOVERNANCE

The district has a formal fund balance policy which mirrors the commonwealth's recommendation to maintain 3% to 8% as unassigned. Favorably, the district has remained in compliance with this policy over the last five years.

Pennsylvania school districts have an institutional framework score of "A," or moderate. Revenues primarily consist of local property taxes, income taxes, and state aid. Revenue predictability is low as state aid can fluctuate annually based on state budget appropriations. Districts have a moderate ability to raise revenues as they are subject to the Act 1 cap, which requires voter approval for property tax increases above an Act 1 index, driven by the CPI. Expenditures primarily consist of instructional expenses, which are moderately predictable. Districts maintain a moderate ability to cut costs based on union contract negotiations and rising pension costs.

Rating methodology and scorecard factors

The US Local Government General Obligation Rating 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 2

Pennsbury School District, PA

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$8,039,997	Aa
Full Value Per Capita	$113,492	Aa
Median Family Income (% of US Median)	156.5%	Aaa
Finances (30%)		
Fund Balance as a % of Revenues	8.4%	A
5-Year Dollar Change in Fund Balance as % of Revenues	2.3%	A
Cash Balance as a % of Revenues	18.5%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	2.2%	A
Management (20%)		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.9%	A
Net Direct Debt / Operating Revenues (x)	0.7x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.1%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
	Scorecard-Indicated Outcome	Aa3
	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.

Sources: Moody's Investors Service, US Census Bureau, Pennsbury School District audited financial statements

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