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CREDIT OPINION
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Pennsbury School District, PA

Update to credit opinion

Summary

Pennsbury School District, PA (Aa3) benefits from a very stable tax base with strong resident wealth, supported by close proximity to Philadelphia (A2 stable). While reserves are somewhat weaker than that of similarly rated peers, the district's financial position is stable. A key credit strength for the district is its strong management controls, long term planning, and the board's willingness to raise property taxes, which somewhat offsets a more narrow financial position. The district has seen a moderately declining enrollment trend due to demographic shifts, which was exacerbated last year by the pandemic, and is expected to persist over the long term. Leverage is currently manageable, though is expected to increase as the district addresses material capital needs. Future reviews will consider whether the district is able to maintain structural operating balance as it manages an increasing debt burden.

Credit strengths

» Above average resident wealth and tax base valuation

» Strong management planning

Credit challenges

» Somewhat elevated debt burden with the expectation of further debt in the near term

» Reserves modest compared to similarly-rated peers

» Declining enrollment coupled with increasing instruction costs

Rating outlook

Outlooks are not typically assigned to municipal issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

» Sustained increases in fund balance levels

» Substantial growth in the district's tax base and wealth and income levels

Factors that could lead to a downgrade

» Material decline in the district's tax base and deterioration of wealth and income levels

» Failure to maintain structurally balanced operations resulting in significant declines in reserves or cash position

» Substantial increase in the debt burden beyond what is currently anticipated

Key indicators

Exhibit 1

Pennsbury School District, PA

	2018	2019	2020	2021	Aa Medians
Economy					
Resident income	156.5%	154.3%	N/A	N/A	120.3%
Full value ($000)	$7,870,566	$8,039,997	$8,179,010	$8,451,735	$3,767,803
Population	70,842	70,853	N/A	N/A	32,239
Full value per capita	$111,100	$113,474	N/A	N/A	$110,286
Enrollment	10,035	9,990	9,907	9,544	4,353
Enrollment trend	-0.4%	-1.0%	-0.9%	-1.7%	0.1%
Financial performance					
Operating revenue ($000)	$202,566	$208,130	$213,458	$216,964	$70,864
Available fund balance ($000)	$18,289	$17,506	$20,052	$22,667	$17,424
Net cash ($000)	$38,765	$38,591	$36,295	$39,494	$20,807
Available fund balance ratio	9.0%	8.4%	9.4%	10.4%	26.1%
Net cash ratio	19.1%	18.5%	17.0%	18.2%	31.0%
Leverage					
Debt ($000)	$174,814	$165,660	$164,800	$157,588	$48,829
ANPL ($000)	$337,075	$304,414	$335,312	$395,548	$92,102
OPEB ($000)	$21,825	$21,014	$24,568	$37,155	$10,438
Long-term liabilities ratio	263.5%	236.0%	245.8%	272.1%	280.7%
Implied debt service ($000)	$12,994	$12,881	$12,078	$11,802	$3,402
Pension tread water ($000)	$16,090	$14,987	$14,828	$15,473	$3,018
OPEB contributions ($000)	$1,194	$1,322	$1,330	$1,289	$440
Fixed-costs ratio	14.9%	14.0%	13.2%	13.2%	11.9%

For definitions of the metrics in the table above please refer to the US K-12 Public School Districts Methodology or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published K12 Median Report.
Sources: US Census Bureau, Pennsbury School District, PA's financial statements and Moody's Investors Service

Profile

Pennsbury School District is located 29 miles northeast of Philadelphia. The district currently serves 9,655 K-12 students through 11 elementary, three middle, and one high school.

Detailed credit considerations

Economy

Pennsbury School District's large $8.4 billion tax base has seen favorable growth over the past several years, with a five year average annual growth rate of just under 2%. District management reports two developments in planning stages that should bring a moderate increase to tax revenue, but neither has broken ground yet. Nevertheless, the district's close proximity to Philadelphia will serve to keep the tax base stable over the long term.

Despite the district's strong tax base and healthy resident wealth, district enrollment had been on the decline even prior to the pandemic, with a compound average annual decrease of 0.9% through 2021. Enrollment declined further due to the impacts of the coronavirus, with the three-year trend worsening to -1.7%. While management reports that it has regained some students in 2022, the district's long term planning assumes an annual enrollment decline of about 1% annually going forward - a credit challenge.

Financial operations

The district's reserves are narrow relative to the size of its budget and in comparison to similarly-rated peers. The district reported an operating surplus of $83,000 for fiscal 2021, essentially break even. Though this was inclusive of a $3 million transfer out to the debt service and capital reserve funds, it also incorporated $2.4 million of monies received through the federal Elementary and Secondary School Emergency Relief (ESSER) program. At year end 2021, operating fund balance, inclusive of the general and debt service funds, stood at a somewhat narrow 10.9%.

The district has assumed break-even budgets for 2022 and 2023, with roughly $2.7 million of remaining ESSER monies allocated in each year. ESSER funds will reportedly be used for one-time expenditures, though the next two years' budgets will also include contingency line items.

As described below, the district reportedly intends to issue material new money debt in the near term, and expects that annual tax increases will need to be approved in order to maintain structurally balanced operations. Future reviews will consider whether the district is able to maintain a balanced budget while providing for increased debt service costs.

Liquidity

The district's liquidity position is satisfactory and should remain stable in the near term. At the end of fiscal 2021, the district had approximately $39.5 million of cash in its General and Debt Service Funds, which amounted to 18% of revenue.

Leverage

Total debt outstanding as of fiscal 2021 audit is $144.52 million. With current debt issuance of $14 million, the district's overall leverage (debt + ANPL + adjusted net OPEB) to 286% of operating revenue, somewhat elevated versus similarly rated peers. It is expected that the district will add roughly $50 million to its debt burden over the next three years in order to provide for several planned capital projects. Overall leverage is projected to increase to roughly 310% of revenue, in line with single-A rated peers.

The fixed costs ratio amounted to a moderate 13.2% of fiscal 2021 revenue, which is a credit strength.

Pennsylvania reimburses local school districts for at least 50% of their pension contributions, although some districts receive higher levels of reimbursement aid. If the state were to end its support, local school districts' ANPLs would roughly double, in most cases.

Legal security

The bonds are general obligations of the district, backed by the district's full faith credit and taxing power.

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

All of the district's debt is fixed rate and amortizes over the long term, with an above-average 75% of principal maturing over the next ten years.

Debt-related derivatives

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

Pensions and OPEB

The district's pension liabilities are expected to grow but remain manageable. 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 2021, the district contributed $16.5 million, which was matched in full by the state's reimbursement for half the annual cost. The fiscal 2021 three-year average Moody's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, was $345 million, or a moderate 182% of annual operating revenues. The district's adjusted OPEB liability amounted to $37.2 million or an average 17% of revenue.

ESG considerations

Environmental

Environmental risk is generally low for the local government sector. According to data from Moody's ESG Solutions, based on county level data, the district is at medium risk from heat stress, water stress, extreme rainfall, hurricanes, water stress, and wildfires. Mitigants to these stress conditions are typically handled at other levels of government.

Social

Social considerations such as wealth, income, and enrollment, are major factors in the city's credit quality and are discussed in the economy section.

Governance

Governance is a key credit consideration for all local government issuers. The district has a history of conservative budgeting and has approved tax increases as needed.

Pennsylvania school districts have an Institutional Framework score [1] of A. Revenue primarily consists of locally controlled property taxes and state aid. Property tax is subject to the Act 1 cap, which requires state, and sometimes voter, approval for property tax increases above an Act 1 index, driven by the consumer price index. The state has never denied a request for an Act 1 exception when the district has demonstrated need. Property taxes have historically been resilient and state aid has grown modestly in recent years, though the Commonwealth has delayed aid to districts in the past.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district'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 school district credits.

Exhibit 2

Pennsbury School District, PA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	154.3%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	119,285	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-1.7%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	10.4%	20.0%	A
Net cash ratio (net cash / operating revenue)	18.2%	10.0%	Aa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	286.7%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	13.2%	10.0%	Aaa
Notching factors			
Potential for significant change in leverage	-0.50		
Scorecard-Indicated Outcome			A1
Assigned Rating			**Aa3**

The potential for significant change in leverage notching factor reflects the district's very high capital asset depreciation ratio, which signals that reinvestment in capital assets is lagging behind depreciation and indicates a future increase in capital funding is likely.

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

Appendix

Exhibit 3
Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value ($000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue ($000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ($000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash ($000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt ($000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL ($000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB ($000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service ($000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water ($000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions ($000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the US K-12 Public School Districts Methodology.
Source: Moody's Investors Service

Endnotes

1 The institutional framework score categorically assesses whether a district has the legal ability to raise the bulk of its operating revenue at the local level or if the state determines the bulk of its operating revenue. Beyond the local versus state categorization, the strength of the institutional framework score is a measure of the district's flexibility in raising additional locally determined operating revenue. See US K-12 Public School Districts Methodology for more details.

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