

RatingsDirect®

Summary:

Council Rock School District, Pennsylvania; General Obligation

Primary Credit Analyst:

Jennifer Boyd, Chicago (1) 312-233-7040; jennifer.boyd@spglobal.com

Secondary Contact:

Taylor Budrow, Chicago + 1 (312) 233 7082; taylor.budrow@spglobal.com

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Credit Profile

US\$15.935 mil GO bnds ser 2019B due 08/15/2028

Long Term Rating

AA/Stable

New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Council Rock School District, Pa.'s series B of 2019 general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating on the district's previously issued GO debt. The outlook is stable.

The series B of 2019 bonds are secured by the district's full faith and credit, subject to the Act 1 Index, which we consider a limited-tax GO pledge. The Act 1 Index restricts a district's ability to raise the tax levy above a certain index determined by the Pennsylvania Department of Education. The district has other debt outstanding that is secured by its full faith and credit and not subject to the Act 1 Index. We rate the limited-tax GO debt at the same level as the district's unlimited-tax GO debt, given our view that the revenue is coming from the same tax base, and we see no significant limitations on the district's fungibility of resources. The district will use the series B of 2019 bond proceeds to refund all or a portion of its series of 2013 and series A of 2013 GO bonds for interest cost savings. We understand the district is not extending the maturity of the refunded bonds but is taking the savings during fiscal years 2021 through 2024 to offset slightly higher debt service during that timeframe.

The district benefits from an extremely strong economy with access to employment in Philadelphia and other nearby economic centers. The district maintains an extensive capital plan that includes upcoming renovations to numerous school buildings. We expect the district will likely continue to use debt to fund these large projects, but we do not expect the debt profile to weaken because of management's plan to structure the new debt to take the place of existing debt service as it matures. We have reservations about an available fund balance that, while strong, is low compared with that of similarly rated peers. However, management reports that the board has shown a commitment to increasing property taxes when needed, and that the district's budget should benefit as construction and renovations to school buildings lead to lower maintenance costs.

The rating reflects our opinion of the district's:

- Access to the Philadelphia metropolitan statistical area economy,
- Very strong income levels and extremely strong market value per capita,
- Good financial management practices and policies under our financial management assessment methodology, and
- Moderate overall debt burden.

Partly offsetting the above strengths, in our view, is the district's available general fund balance, which, while projected to remain at levels we consider strong, is lower than that of many of its similarly rated peers.

Economy

Council Rock School District serves an estimated population of 72,364. At 189% and 198% of national averages, respectively, the district's median household and per capita effective buying income are very strong, in our view. At \$155,725 per capita, the 2018-2019 market value totaling \$11.3 billion is, in our opinion, extremely strong. The 10 largest taxpayers make up an estimated 1.9% of assessed value, which we consider very diverse.

The district is located in Bucks County, about 20 miles north of Philadelphia. The district encompasses Newtown Borough and the townships of Newtown, Northampton, Upper Makefield, and Wrightstown. The district's location provides residents with ample employment opportunities in Philadelphia and nearby Trenton and Princeton in New Jersey.

Student enrollment for fiscal 2020 totaled 10,812. Enrollment has been decreasing, but the district projects stable enrollment the next few years. Management attributes the recent declines to lower birth rates that have led to smaller class sizes in the lower grade levels. However, management reports that in-migration into the district offsets those trends, and is thus projecting stable enrollment for the near future.

Finances

The district's adjusted available fund balance of \$21.4 million is strong, in our view, at 9.2% of general fund expenditures at fiscal year-end (June 30) 2018. The district reported a deficit operating result of 1.2% of expenditures.

Unassigned general fund balance was \$10.7 million, or 4.6% of general fund expenditures. The district's \$10.6 million in committed funds earmarked for budget stabilization, future education initiatives, and self-insured health insurance, all of which is available for liquidity, if necessary, improves our view of finances. Available fund balance decreased in fiscal 2018 primarily as a result of a transfer of \$3 million from the general fund to the capital projects fund to offset future capital projects and maintenance.

For fiscal 2019, the district estimates a \$457,000 general fund surplus with a minimal transfer out. Management attributes the lack of a large transfer to the capital projects fund to lower-than-budgeted capital expenditures, and the deposit of certain one-time proceeds into the capital projects fund. For fiscal 2020, the district budgeted for a \$4.4 million general fund shortfall without a transfer out, but anticipates finishing with a small surplus. Management does not anticipate another large transfer out for capital projects until fiscal 2021, when the transfer might again be as much as \$3 million. However, the district reports that these maintenance costs should decline as various school renovations are completed. We note that if pensions, capital, or other expenditures materially reduce fund balance in the future, this could be viewed as a more significant credit weakness.

Management

We consider the district's management practices good under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Key practices include management's:

- Two- to three-year lookback at revenue and expenditures to formulate the current budget;
- Monthly reports on budget-to-actual results to the school board;
- Five-year financial forecast and capital plan, which it updates annually and shares with the board;
- Investment policy with monthly treasurer's reports to the board; and
- Formal minimum fund balance policy of 5% of expenditures.

The district does not maintain a formal debt-management policy.

The district reports it has not had a cybersecurity attack, but is testing its systems, learning from the experience of peers that have experienced an attack, and making sure its insurance coverage is adequate. In terms of weather-related risks, management sees heavy rains as its biggest concern, but anticipates that the design of its renovations and construction within its facilities have improved and will improve its ability to handle those extreme weather events.

Debt

Overall net debt is 3% of market value and \$4,717 per capita, which we believe to be moderate. Amortization is slower than average, with 46% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 7.7% of total governmental fund expenditures excluding capital outlay, which we consider low, in fiscal 2018.

The district has significant renovation and construction plans for its facilities, and likely will issue debt to support those needs, although the board hasn't taken any actions regarding this.. The district intends to structure any additional debt in a way that keeps its debt service level with its current commitments, and can do this as other debt is scheduled to mature. We understand the district has no direct purchase debt.

Pension and other postemployment benefit liabilities

In fiscal 2018, the district paid its full required contribution of \$34.8 million, or 12.6% of total governmental expenditures, toward its pension obligations. Also, the district paid \$526,000, or 0.2% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Pension and OPEB carrying charges totaled 12.8% of total governmental fund expenditures.

The district participates in the Public School Employees' Retirement System (PSERS), a cost-sharing, multiple-employer, defined benefit pension plan. As of the district's fiscal 2018 audit, the district's proportionate share of the net PSERS liability was \$401 million with a discount rate of 7.25%. The plan's funded ratio was 54%, which we consider low. The district's pension costs continue to increase but at a slower pace compared with a few years ago. The district reports it has been able to handle the smaller increases experienced in recent years within its operating budget and anticipates doing so the next few years as well.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of strong available reserves and good financial management practices. The district's very-strong-to-extremely-strong economic indicators with access to the Philadelphia

metropolitan statistical area economy further supports the outlook. We anticipate that management will likely continue to make budgetary adjustments it deems necessary to maintain at least strong available reserves despite pension contribution pressure and transfers into the capital projects fund. Therefore, we do not expect to change the rating during the two-year outlook period.

Downside scenario

If management were to continue to draw down available fund balance or if unassigned fund balance were to decrease to a level below the district's fund balance policy, with no plans to correct it, we could lower the rating. We also could consider lowering the rating if the district's overall debt burden materially increased.

Upside scenario

With all other factors remaining stable, if available fund balance were to improve to, and be sustained at, levels we consider commensurate with those of higher-rated peers, we could raise the rating.

Ratings Detail (As Of October 9, 2019)		
Council Rock Sch Dist GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
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<i>Long Term Rating</i>	AA/Stable	Affirmed
Council Rock Sch Dist GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Council Rock Sch Dist GO state credit enhancement		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	Current
Council Rock Sch Dist SCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	Current
Council Rock Sch Dist SCHSTPR		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	NR	Current
Council Rock Sch Dist GO State Credit Enhancement		
<i>Underlying Rating for Credit Program</i>	NR	Current
<i>Long Term Rating</i>	AA/Stable	Affirmed

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