

## ISSUER COMMENT

25 August 2021

### RATING

Issuer Rating<sup>1</sup>

A1 No Outlook

## Freeport Area School District, PA

### Annual comment on Freeport Area SD

#### Issuer profile

Freeport Area School District is located primarily in Butler County in west central Pennsylvania, approximately 30 miles northeast of Pittsburgh. In 2020, the district's enrollment was 1,889.

#### Key indicators

Exhibit 1

#### Freeport Area School District, PA

	2017	2018	2019	2020	A Medians
<b>Economy</b>					
Resident income	133.5%	129.2%	129.9%	N/A	97.0%
Full value (\$000)	\$776,320	\$791,790	\$846,169	\$845,389	\$1,077,779
Population	11,638	11,689	11,647	N/A	13,232
Full value per capita	\$66,706	\$67,738	\$72,651	N/A	\$82,579
Enrollment	1,875	1,880	1,859	1,889	1,870
Enrollment trend	N/A	0.4%	0.5%	0.2%	-0.5%
<b>Financial performance</b>					
Operating revenue (\$000)	\$29,755	\$30,419	\$31,504	\$32,396	\$26,801
Available fund balance (\$000)	\$6,996	\$7,498	\$6,831	\$6,660	\$5,966
Net cash (\$000)	\$9,797	\$9,075	\$8,863	\$8,586	\$6,545
Available fund balance ratio	23.5%	24.6%	21.7%	20.6%	21.9%
Net cash ratio	32.9%	29.8%	28.1%	26.5%	26.0%
<b>Leverage</b>					
Debt (\$000)	\$41,740	\$39,605	\$37,395	\$35,570	\$20,717
ANPL (\$000)	\$45,484	\$46,269	\$42,287	\$46,914	\$40,570
OPEB (\$000)	N/A	\$6,238	\$6,038	\$23,409	\$3,790
Long-term liabilities ratio	N/A	302.8%	272.1%	326.9%	295.9%
Implied debt service (\$000)	\$3,273	\$3,100	\$2,918	\$2,726	\$1,451
Pension tread water (\$000)	\$2,093	\$2,203	\$2,082	\$2,073	\$1,311
OPEB contributions (\$000)	N/A	\$313	\$355	\$262	\$167
Fixed-costs ratio	N/A	18.5%	17.0%	15.6%	13.1%

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, Freeport Area School District, PA's financial statements and Moody's Investors Service

#### Credit overview

The credit position of Freeport Area SD is good but the A1 rating is slightly lower than the US school district median of Aa3. Key credit factors include a healthy economy, a stable enrollment trend, a sizable financial position, slightly high leverage and moderate fixed costs.

### Economy

Freeport Area SD has a robust economy and the enrollment trend is sufficient. Overall, the factor is roughly consistent with A1 rating.

- » The average resident income is very healthy at 130% of US.
- » The three year enrollment trend of -0.5% is stable.
- » The full value per capita of \$72,584 is satisfactory.

### Financial performance

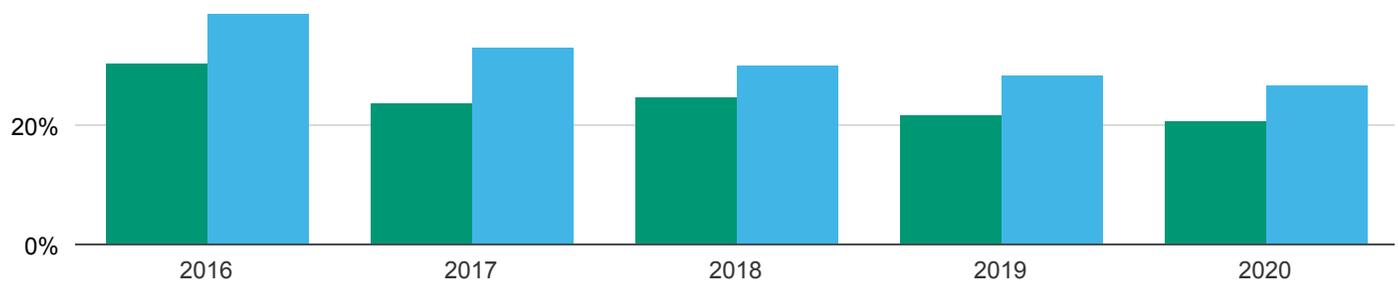
The district has a strong financial profile that is slightly favorable with respect to the rating of A1.

- » Cash balance ratio is strong at 26.5%.
- » Available fund balance ratio of 20.6% is solid.

Exhibit 2

#### Fund balance and cash balance as percentage of operating revenues

■ Available fund balance ratio (available fund balance / operating revenue) ■ Net cash ratio (net cash / operating revenue)



Source: Issuer financial statements; Moody's Investors Service

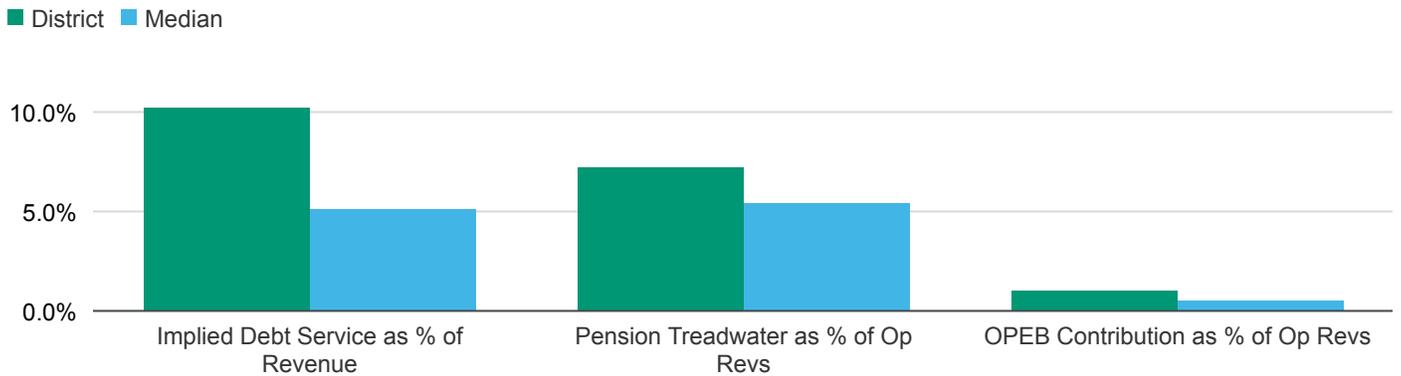
### Leverage

Freeport Area SD has a slightly elevated leverage and fixed costs are moderate. Overall, this factor is consistent with A1 rating.

- » The ratio of long-term liabilities (Debt + ANPL + OPEB) to operating revenues is slightly elevated at 326.9%.
- » Fixed-costs ratio is average at 15.6%.
- » 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.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

Exhibit 3  
Fixed costs as a percentage of operating revenues



Source: Issuer financial statements; Moody's Investors Service

### Institutional framework

Pennsylvania school districts have an Institutional Framework score <sup>2</sup> 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.

## Appendix

Exhibit 4

### Key Indicators Glossary

	Definition	Source
<b>Economy</b>		
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
<b>Financial performance</b>		
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
<b>Leverage</b>		
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 rating referenced in this report is the local government's Issuer Rating. Issuer Ratings as applied to US local governments typically reflect an unlimited general obligation pledge, which may have security and structural features in some states that improve credit quality for general obligation bondholders.
- 2 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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