

RatingsDirect®

Summary:

Pine-Richland School District, Pennsylvania; School State Program

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Summary:

Pine-Richland School District, Pennsylvania; School State Program

Credit Profile

US\$18.0 mil GO rfdg bnds ser A of 2014

<i>Long Term Rating</i>	AA-/Stable	New
<i>School Issuer Credit Rating</i>	AA-/Stable	New

US\$9.0 mil GO rfdg bnds ser B of 2014

<i>Long Term Rating</i>	AA-/Stable	New
<i>School Issuer Credit Rating</i>	AA-/Stable	New

Pine-Richland Sch Dist GO State Credit Enhancement

<i>School Issuer Credit Rating</i>	AA-/Stable	Upgraded
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Pine-Richland School District, Pa.'s general obligation (GO) debt one notch to 'AA-' from 'A+'. The outlook is stable.

The upgrade reflects our opinion of the district's continued strengthening of its finances.

At the same time, Standard & Poor's assigned its 'AA-' rating and stable outlook to the district's series 2014A and 2014B GO bonds.

The rating reflects our opinion of the district's general creditworthiness, including its:

- Growing, primarily residential area with easy access to the Pittsburgh employment base;
- Modest, yet consistent, property tax base growth;
- Extremely strong wealth and very strong income, coupled with unemployment that is historically just below commonwealth and national rates; and
- Sound finances, characterized by strong reserves that continue to support consistent student enrollment growth.

We believe somewhat offsetting these credit strengths are, what we consider, the district's:

- High debt with limited additional capital needs, and
- Exposure to variable-rate debt.

The district's full-faith-and-credit-GO pledge secures the bonds. The district's participation in the Pennsylvania State Aid Intercept program further secures the bonds; the program acts as a floor to the rating. Officials intend to use series 2014A bond proceeds to refund the district's series 2006 GO bonds and series 2014B bond proceeds to refund the district's series 2003 GO bonds for a combined gross present value savings of roughly \$1.2 million, or 4.9% of refunded

bonds.

The district, with a population estimate of 23,296, is in northern Allegheny County, just 20 miles north of Pittsburgh. The 31-square-mile district serves the townships of Pine and Richland. Due to easy access to the Pittsburgh area employment base, the district has quickly transformed into a suburban bedroom community from a predominately rural area. While some residents find employment in the district, many residents make the short commute, via several major roadways including the Pennsylvania Turnpike and interstates 279 and 79, into the heavily dominated service sector employment base of the Greater Pittsburgh area. County unemployment averaged 6.5% in 2013, which remained below the commonwealth's 7.4% and the nation's 7.35%.

The district serves a current student enrollment of 4,619 at its four elementary schools, one middle school, and one high school. Enrollment has increased by 1.6% since the 2009-2010 school year; officials expect enrollment to increase by another 3.1% by the 2018-2019 school year due to the significant amount of residential development that has occurred over the past 10 years-20 years. Management indicates there are currently no capacity concerns.

Due to ongoing new residential construction, which has remained steady, the property tax base has experienced consistent and healthy growth. Assessed value (AV) has increased by 3.5% since fiscal 2010 to \$1.98 billion in fiscal 2014; this equals a market value of \$84,874 per capita, a level we consider very strong. Leading taxpayers, primarily apartment complexes and retail sites, account for a very diverse 5.8% of AV. In our opinion, median household effective buying income is a very strong 178% of the commonwealth's level and 172% of the nation's level.

In our view, finances remain sound with the district producing three general fund surpluses in a row. The fiscal 2014 budget totals \$69.5 million; we understand officials used \$262,000 of fund balance appropriation to balance the budget. Management indicates fiscal 2014 is on target with the budget; it expects to close the fiscal year with at least break-even results, including possibly another general fund surplus.

Fiscal 2013 closed with a \$3.2 million operating surplus that was greater than the \$473,000 deficit in the budget. Management attributes the surplus to much-higher-than-budgeted earned income tax revenue, which came in slightly more than \$1 million better than the district expected. General fund balance was \$12.5 million, which we consider a very strong 19.6% of expenditures, \$11.4 million of which management considers available, or assigned and unassigned, or, in our view, a very strong 17.4%. Local revenue accounts for a healthy 80% of general fund revenue followed by state aid at 19%.

Standard & Poor's considers the district's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

In our opinion, overall debt is a high \$8,020 per capita, or a moderately high 9.4% of market value. We view debt service as a moderate 13.7% of general fund expenditures. We consider principal amortization slow with officials planning to retire 37% over 10 years. We understand district officials do not plan to issue additional debt for capital needs over the next few years.

Pine-Richland's general-fund-related debt totals \$136.9 million, 6.8% of which it issued as variable-rate bonds. The

district has entered into five swap agreements that had a combined mark-to-market-value of a negative \$3.05 million as of March 31, 2014. Two of the five hedge variable-rate demand bonds (the series 2006 and 2011C bonds). Those bonds each have a standby bond purchase agreement with PNC bank that we believe creates contingent liquidity risk. Therefore, we completed a coverage test and concluded that the district has cash on hand that provides more than 1x variable-rate demand bond principal. We will continue to monitor coverage, and we could lower the rating if coverage were to decrease below 1x.

The district participates in the Pennsylvania Public School Employees' Retirement System (PSERS). In fiscal 2013, it contributed \$1.3 million toward the PSERS, or 1.9% of total governmental fund expenditures. At fiscal year-end 2013, the district had committed \$477,261 for future PSERS increases. The district also provides other postemployment benefits (OPEB). In fiscal 2013, it contributed \$1.2 million toward the OPEB, or 216% of the annual required contribution. At fiscal year-end 2013, the district had \$3.38 million assigned for employee benefit obligations. As of Jan. 1, 2013, the most-recent actuarial valuation, the unfunded actuarial accrued liability equaled \$4.44 million, or 0.2% of market value.

Outlook

The stable outlook reflects Standard & Poor's opinion of the growth occurring in the area and the district's participation in the Greater Pittsburgh area employment base, reflected in the tax base and below-average unemployment. We consider finances strong, and we believe reserves provide rating stability. If the district were to implement more formal reserve policies to raise its financial management score to what we consider "good", or if its debt were to decrease significantly, we could raise the rating. At the same time, if reserves and liquidity were to diminish due to budgetary or debt amortization pressures, we could lower the rating. We, however, do not expect to change the rating over the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Contingent Liquidity Risks, March 5, 2012

Ratings Detail (As Of April 10, 2014)

Pine-Richland Sch Dist GO rfdg bnds ser 2012A due 11/01/2033

<i>Long Term Rating</i>	AA-/Stable	Upgraded
<i>School Issuer Credit Rating</i>	AA-/Stable	Upgraded

Butler Cnty Gen Auth, Pennsylvania

Pine-Richland Sch Dist, Pennsylvania

Butler Cnty Gen Auth (Pine-Richland Sch Dist) GO State Credit Enhancement VRDB ser 2011C (AGM)

<i>Long Term Rating</i>	AA/A-1/Stable	Upgraded
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Ratings Detail (As Of April 10, 2014) (cont.)

<i>School Issuer Credit Rating</i>	AA-/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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