S&P Global
Ratings

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Summary:
Council Rock School District, Pennsylvania; General Obligation

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Summary:

Council Rock School District, Pennsylvania; General Obligation

Credit Profile		
US$17.75 mil GO bnds ser 2019 due 11/15/2044		
Long Term Rating	AA/Stable	New
US$14.325 mil GO bnds ser 2019A due 11/15/2029		
Long Term Rating	AA/Stable	New
Council Rock Sch Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating and stable outlook to Council Rock School District, Pa.'s series 2019 and 2019A general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the district's existing GO debt.

The district's full-faith-and-credit-GO pledge secures the bonds. The Act 1 Index under Pennsylvania commonwealth statute restricts a district's ability to raise the tax levy above a certain index, which the Pennsylvania Department of Education determines. Despite these limitations, we rate the limited-tax GO debt on par with our view of the district's general creditworthiness because the ad valorem tax is not from a measurably narrower property tax base and there are no limitations on the fungibility of resources, supporting our view of the district's overall ability and willingness to pay debt service.

Officials intend to use series 2019 bond proceeds to finance various improvements to district facilities and series 2019A bond proceeds to refund a portion of the district's series 2014 and 2014D bonds outstanding.

We believe operations are stable. 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 falter because of management's scrupulous financial oversight. We have reservations about available fund balance that, while strong, is low compared with similar-rated peers; management's plan to grow reserves in accordance with forecasts, however, eases our concerns.

The rating reflects our opinion of the district's:

- Very-strong-to-extremely strong economy with access to the Philadelphia metropolitan area, and
- Good management practices and policies under our Financial Management Assessment (FMA) methodology.

We believe somewhat offsetting these factors is the district's available fund balance, which, while projected to remain at levels we consider strong, is lower than those commensurate with similar-rated peers.

Economy

The approximately 71-square-mile district, with a population estimate of 72,542, is primarily in lower Bucks County, about 22 miles northeast of Philadelphia and 40 miles southeast of Allentown. 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.

In our opinion, median household and per capita effective buying incomes are very strong at 192% and 195%, respectively, of national levels. Assessed value (AV) grew by 1.3% since fiscal 2016 to $1.3 billion in fiscal 2018. AV growth has averaged approximately 0.77% annually since fiscal 2014. Management notes there is a 100-plus-acre space designated for use as a new residential development. We expect area development and inflationary growth will likely continue to increase AV at a similar historical pace. Market value totaled $10.9 billion in fiscal 2018, which we consider extremely strong at $150,638 per capita. Approximately 1.9% of AV comes from the 10 leading taxpayers, representing a very diverse tax base.

Student enrollment at the 10 elementary schools; two middle schools; and two high schools total 10,860 for school year 2018-2019, down by approximately 1.3% from school year 2017-2018. However, we do not expect enrollment to have an effect on mainly wealth-driven state aid.

Finances

Finances are, in our opinion, strong. Unassigned general fund balance was $10.7 million, or 4.6% of general fund expenditures, at fiscal year-end 2018, a level we consider good. 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--funds designated as unassigned and committed--made up an estimated $21.4 million, or 9.2% of general fund expenditures, a level we consider strong, at fiscal year-end June 30, 2018.

Available fund balance decreased to 9.2% of expenditures in fiscal 2018 from 10.8% in fiscal 2017 due primarily to a transfer of $3 million into the capital-projects fund from the general fund to offset future capital projects and maintenance. The district has maintained these types of transfers for the past several fiscal years, and it can discontinue these transfers at any time if needed. Net of this transfer, the district posted general fund surplus operating results of $547,542, or 0.2% of expenditures, compared with an originally budgeted deficit of $4.2 million, or 1.8%, in fiscal 2018.

The fiscal 2019 general fund budget reflects a roughly $4.1 million deficit, or 1.7% of budgeted expenditures. With half of fiscal 2019 remaining, management preliminarily expects about $800,000 of fund-balance appropriation, or 0.3% of budgeted expenditures, which includes another voluntary transfer of $3 million into the capital-projects fund. If management realizes the planned fund-balance appropriation, available fund balance could decrease to 8.5% of budgeted general fund expenditures, a level we consider strong.

As reflected in the district's multiyear financial and fund-balance forecasts, it intends to improve fund balance with conservative budgeting and tax increases to the Act 1 Index. We note that if pensions, capital, or other expenditures continue to reduce fund balance, it could be a credit concern.

Management

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

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;
- Conformity to commonwealth investment guidelines with monthly treasurer's reports to the board; and
- Formal minimum fund-balance policy of 4% of expenditures.

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

Debt

At 3% of market value, or $4,550 per capita, overall net debt was moderate, in our view, at fiscal year-end 2018. With 41% of direct debt scheduled to be retired within 10 years, amortization is slower than average. Debt service carrying charges were 7.7% of total governmental-fund expenditures, excluding capital outlay, in fiscal 2017, which we consider low.

Management notes it could issue up to $27 million of additional debt to fund elementary-school-related capital improvements in late 2019 or 2020 and debt for capital improvements to other elementary schools.

Pension and other-postemployment-benefit liabilities

The district participates in, and contributes to, the commonwealth-administered Public School Employees' Retirement System (PSERS), a cost-sharing, multiple-employer, defined-benefit pension plan. The commonwealth actuarially determines and calculates the required pension contribution.

The district paid its full required contribution of $34.8 million to its pension obligations in fiscal 2018, or 12.6% of total governmental expenditures. It also paid $526,000, or 0.2% of total governmental expenditures, to its other-postemployment-benefit (OPEB) obligation. The combined pension and OPEB carrying charge totaled 12.8% of total governmental-fund expenditures in fiscal 2018.

According to Governmental Accounting Standards Board Statement No. 67, PSERS' net pension liability, at June 30, 2017, was $49.3 billion. In addition, the funded ratio--including PSERS' fiduciary net position as a proportion of total pension liability--was 51.8% at June 30, 2017, up from 50.1% since the commonwealth began fully funding the actuarially determined contribution in fiscal 2017.

The district's proportion of PSERS' net liability, as of the most recent actuarial valuation, was about $401 million. Its proportionate share of the net pension liability reflects statutorily required contributions related to all reporting units' statutorily required contributions for the measurement period.

Employer contribution increases to PSERS are starting to stabilize, and officials expect annual increases will level off through fiscal 2022. Projections have the contribution rate at 32.57% for fiscal 2018, increasing to slightly more than 36% by fiscal 2022; this would be a significant change compared with rates growing to more than 30.03% in fiscal 2017 from 12.36% in fiscal 2013.

Despite this slowdown, we believe pension costs will likely continue to stress school budgets. Due to financial performance and strong available fund balance, we believe the district will likely continue to absorb higher pension costs with a minimal effect on reserves.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of management's strict budgetary oversight with its good practices and policies, extremely strong economy, and strong available fund balance. We believe management will likely continue to make budgetary adjustments to maintain, at least, strong 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 unassigned fund balance were to decrease below the district's fund-balance policy, with no plans to correct it, we could lower the rating.

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 higher-rated peers, we could raise the rating.

Ratings Detail (As Of February 5, 2019)		
Council Rock Sch Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed
Council Rock Sch Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed
Council Rock Sch Dist GO bnds ser 2018A due 08/01/2023		
Long Term Rating	AA/Stable	Affirmed
Council Rock Sch Dist GO state credit enhancement		
Long Term Rating	AA/Stable	Affirmed
Council Rock Sch Dist SCHSTPR		
Long Term Rating	AA/Stable	Affirmed
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