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Ratings

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Summary:

Council Rock School District, Pennsylvania; General Obligation

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Credit Profile		
US$23.5 mil GO bnds ser 2021 due 11/15/2045		
Long Term Rating	AA/Stable	New
US$5.855 mil GO bnds ser 2021A due 08/15/2027		
Long Term Rating	AA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Council Rock School District, Pa.'s approximate $23.5 million series 2021 and $5.9 million series 2021A general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the district's previously issued GO debt. The outlook is stable.

The district's full faith and credit, subject to the Act 1 Index where applicable, secures the series 2021 and 2021A bonds, as well as existing GO debt. 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. We rate the district's 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 fungibility of resources.

Officials intend to use series 2021 bond proceeds to finance various school facility projects as part of its ongoing capital planning, while using series 2021A proceeds to refund its outstanding series 2015B GO bonds for interest cost savings.

Credit overview

The district benefits from an extremely strong economy with access to employment in Philadelphia and other nearby economic centers. With this issue, the district is finishing a multi-year capital outlay period, steered by an extensive capital plan that management utilizes to guide its decision making. The district's available reserves, while strong on a nominal basis, are low compared with those 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 are both completed and subsequently producing fewer maintenance costs. Therefore, we expect the district will maintain its stable financial profile and overall credit quality.

S&P Global Ratings believes that the U.S. economy is showing sign of a strong recovery and we also revised our sector outlook back to stable from negative. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled Economic Outlook U.S. Q2 2021: Let The Good Times Roll, March 24, 2021, published March 24, 2021, and State, Local Government, School District, And Charter School Sector Views Revised Back To Stable, published March 24, 2021, both on RatingsDirect.)

The rating reflects our opinion of the district's:

- Access to the Philadelphia metropolitan statistical area (MSA) economy, contributing to what we see as very strong income levels and extremely strong market value per capita;
- Good financial management practices and policies under our Financial Management Assessment (FMA) methodology; and
- Strong financial profile with structurally balanced operations.

The district's comparatively lower reserves relative to peers and higher-rated entities somewhat offset these strengths.

Environmental, social, and governance (ESG) factors

Currently, we are not aware of any environmental, social, and governance risks that could threaten our view of the district's creditworthiness. Given the growing risk associated with cyber security, the district has put in place infrastructure to mitigate these risks. We have incorporated our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Absent the implications of COVID-19, we consider the district's social risks to be in line with those of the sector. We also view governance and environmental risks as being in line with our view of the sector as a whole.

Stable Outlook

Downside scenario

If management were to draw down available fund balance or if the 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 the 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.

Credit Opinion

Economy

Council Rock School District serves an estimated population of 73,011. At 177% and 186% of national averages, respectively, the district's median household and per capita effective buying incomes are very strong, in our view. At $155,108 per capita, the 2020 market value totaling $11.3 billion is, in our opinion, extremely strong. The 10 largest taxpayers make up an estimated 1.8% of assessed value, which we consider very diverse.

The district is 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. Bucks County's unemployment rate, like many municipalities, spiked to 15% in April 2020 at the onset of the pandemic before moderating to 5.3% as of December 2020, and subsequently ticking back up to 6.7% as of February 2021. Given the level of economic uncertainty still present as it relates to the pandemic and ensuing recovery, we will monitor any lingering impact to the local area.

Student enrollment for school year 2020-2021 totaled 10,484. Enrollment has been decreasing slightly, with the most recent decrease being larger and attributable to COVID-19, but the district projects stable enrollment over the next few years. Management attributes the recent declines, outside of pandemic-impacted 2020-2021, 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. Since enrollment is one of numerous factors in the commonwealth's basic education funding formula, we do not expect changes in enrollment to have a significant effect on the amount of state aid the district receives.

Finances

The district maintains a strong financial profile, raising taxes as needed to ensure revenues align with expenditures. Although it has not needed to exceed Act 1 limitations, the board authorizes the ability to do so if needed. Combined with conservative budgeting, the district generally achieves surplus results, with any deficits related to transferring surplus funds to dedicated capital funds.

Fiscal 2020 continued this trend, with the district reporting a surplus operating result of about $703,000, or 0.3% of expenditures, after transferring $2.5 million to the capital projects fund. Officials attribute the surplus to outperforming conservative budgeting, including revenues tracking in line with expectations and more substantial expenditure savings than typically expected; while the district historically comes in under budget, officials note school closures at the onset of the pandemic resulted in additional savings including about $2.5 million from the lack of transportation and facility operations, as well as $1.8 million from establishing an all-virtual instruction format that removed the need for substitute or temporary positions. Local sources of revenue, including property and earned income taxes, make up the majority of the district's general fund revenues (about 76%), with state sources accounting for most of the remainder (about 24%).

The district adheres to its formal fund balance policy to maintain unassigned reserves at 5% of expenditures, with fiscal 2020 levels at 5.2%. Including the district's $10.5 million of committed funds earmarked for budget stabilization, future education initiatives, and COVID-19 expenditures, all of which is available for liquidity, if necessary, improves our view of its finances. Officials note that with federal stimulus and outperformance of budgetary expectations, none of the committed balances, most notably those for COVID-19, are expected to be drawn upon. These reserves bring the district's total available fund balance to $22.9 million, which is strong, in our view, at 9.6% of general fund expenditures at fiscal year-end (June 30) 2020. Management notes the district's allotment of federal stimulus funds total approximately $4.7 million, of which $3.3 million in allocation has not yet been received. We believe the budgetary framework, substantiated by capital and financial planning, should enable the sustained maintenance of strong reserve levels.

For fiscal 2021, the district expects to outperform its conservative approach once more, and officials cite some additional pandemic-related savings as curtailed operations bled into fiscal 2021 with the pandemic ongoing; in addition, based on year to date results, management anticipates a revenue surplus of approximately $5 million, or an outperformance of 2%. The district reports that the district's capital outlay phase is nearly complete, and these maintenance costs should decline as various school renovations are completed. If pensions, capital, or other expenditures materially reduce fund balance in the future, we could view this as a more significant credit weakness.

Management

We consider the district's management practices good under our FMA 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.

The strength of management's financial and operational policy framework is key to the district's credit quality, and the nuanced proactivity was demonstrated this past year as officials developed, in addition to the maintenance of existing practices, a COVID-19 financial dashboard that enhanced transparency, scenario analysis, and fiscal planning amid the pandemic.

Key practices include management's:

- Two- to-three-year lookback at revenue and expenditures to formulate the current budget with results demonstrating the conservative nature of assumptions;
- Monthly reports on budget-to-actual results to the school board with the ability to amend the budget if needed;
- 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 unassigned fund balance policy of 5% of the following year's budgeted expenditures to preserve the district's financial integrity.

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

Debt

At 2.9% of market value and $4,542 per capita, overall net debt is low to moderate, respectively, in our view. With 50% of the district's direct debt scheduled to be retired within 10 years, amortization is approximately average. Debt service carrying charges were 7.8% of total governmental fund expenditures excluding capital outlay in fiscal 2020, which we consider low.

With the issuance of the series 2020 GO bonds, officials have signaled that its significant renovation and construction plans for its facilities, which has taken place over the last five to six years, are coming to an end. While there will likely be some additional capital needs, management notes that there are no concrete plans at this time. The district intends to structure any additional debt in a way that keeps it 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

- We view pension costs as a source of credit pressure, although we expect the district will continue to manage cost increases without jeopardizing its financial balance.
- Furthermore, given the state reimburses about half of increased pension costs, the impact is somewhat mitigated.
- While the district funds its other postemployment benefit (OPEB) obligations on a pay-as-you-go basis, which given long-term medical cost trends will likely lead to cost escalations, steps taken during contract negotiations to limit

these benefits reduce the overall liability and potential for budgetary pressure.

The district participates in the following plans:

- Pennsylvania Public School Employees' Retirement System (PSERS): 54.3% funded, with a proportionate share of the plan's net pension liability of $399.2 million.
- A single-employer defined-benefit OPEB plan: a net OPEB obligation of $17.5 million.

The pension plan made funding progress in the most recent year, with contributions slightly in excess of static funding, but less than our minimum funding progress metric. The district makes contractual contributions based on an actuarial calculation. Employer contributions to the plan are actuarially calculated using a layered amortization, with a level percent-of-pay method, over a 24-year period. The plan's amortization methods, especially the level 5% of payroll amortization, help to defer costs and will result in slow funding progress. With liabilities measured using a discount rate of 7.25%, we see some risk of cost escalation resulting from market volatility, but we believe there also remains a risk of contributions not keeping up with an actuarial plan toward full funding.

The district paid its full required contribution of $37.5 million, or 14.2% of expenditures, toward its pension obligations in fiscal 2020. Also, the district also contributed approximately 0.4% of expenditures toward its OPEB obligations in fiscal 2020. Combined pension and OPEB carrying charges totaled 14.5% of total governmental fund expenditures in 2020.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of April 9, 2021)		
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		
Long Term Rating	AA/Stable	Affirmed
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		
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 2019B due 08/15/2028		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of April 9, 2021) (cont.)		
Council Rock Sch Dist GO state credit enhancement		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	NR	
Council Rock Sch Dist GO state credit enhancement		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	NR	
Council Rock Sch Dist SCHSTPR		
Long Term Rating	AA/Stable	Affirmed
Underlying Rating for Credit Program	NR	