

RatingsDirect®

Summary:

Avon Grove School District, Pennsylvania; General Obligation; School State Program

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Summary:

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Credit Profile

US\$4.295 mil GO bnds ser 2015

Long Term Rating AA/Stable New

Underlying Rating for Credit Program AA/Stable New

Avon Grove Sch Dist GO bnds

Long Term Rating AA/Stable Affirmed

Underlying Rating for Credit Program AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and underlying rating to Avon Grove School District, Pa.'s series 2015 general obligation (GO) bonds and affirmed its 'AA' long-term and underlying ratings on the district's existing GO debt. The outlook is stable.

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

- Affluent, residential community, benefiting from proximity to the Philadelphia and Wilmington, Del. employment centers;
 - Growing property tax base;
 - Strong finances; and
 - Low-to-moderate debt burden with rapid principal amortization.
- Tempering these strengths are rising pension contributions that could pressure the district's finances.

The district's full-faith-credit-and available-taxing-power pledge secures the bonds. The Pennsylvania State Aid Intercept program provides additional security. Officials intend to use bond proceeds to current refund a portion of the district's series 2010 GO bonds. We understand the district will save close to \$100,000 with this refunding and that the savings will be taken in fiscal 2016 and there is no extension of maturities.

Avon Grove School District, with a population of roughly 31,000, occupies a 67-square-mile section of Chester County. It operates two elementary schools, one middle school, one high school, and one administration building. Management indicates enrollment has declined in recent years to 5,083 in fiscal 2015 due to charter school competition. As a result, the district did a feasibility study and is considering implementing a full-day kindergarten program, which should help increase enrollment.

Located approximately 15 miles northwest of Wilmington and 35 miles southwest of Philadelphia, the district is a residential community with some agricultural activity. Leading area employers include:

- DuPont (12,000 employees),
- Bank of America (10,000),
- Christiana Care Health Services (7,700), and
- AstroZeneca Inc. (7,500).

The district's median household effective buying income and per capita effective buying income are, in our opinion, very strong at about 185% and 132% of the national averages, respectively. This is reflected in the county's historically low unemployment rate. The rate in 2014 averaged 4.1%, which remained well below the commonwealth (5.6%) and national (6.15%) averages. Assessed value (AV) for fiscal 2014 totaled \$1.8 billion, which was a 1.3% increase from fiscal 2011. The corresponding market value is \$2.6 billion, which is a very strong \$85,455 per capita. The tax base remains very diverse, with the top 10 taxpayers accounting for 6.4% of AV.

The district's financial performance continues to be strong. The fiscal 2015 budget totaled \$81.6 million and included a \$1.3 million fund balance appropriation to balance the budget. Management expects fiscal 2015 to close with a \$1 million general fund surplus. However, the district may transfer close to \$1 million from the general fund to the capital projects fund to support potential capital projects.

Fiscal 2014 was the third consecutive general fund surplus for the district. The year closed with a \$3.4 million surplus, which management attributed to conservative budgeting practices. The total general fund balance was \$26.4 million at year-end (June 30)- consisting of committed (\$10 million) and unassigned (\$15.4 million) balances - which represented a very strong 35.7% of expenditures. Management reports the committed balance may likely be spent down over the next 10 years to cover rising pension costs. However, if the district keeps posting surpluses, it will not have to use the full committed fund balance. The available fund balance, assigned and unassigned, remained very strong, totaling \$16 million, or 21.7% of expenditures. Local sources were the leading revenue source, accounting for 63.2% of general fund revenues in fiscal 2014, while state sources accounted for only 35%, which we believe is a credit strength as aid is susceptible to commonwealth budget cuts.

The district participates in the Pennsylvania Public School Employees' Retirement System and provides other postemployment benefits (OPEB) to eligible retirees. The district continues to meet 100% of the annual required contributions on its pension, and funds the OPEB on a pay-as-you-go basis. Pension costs in fiscal 2014 totaled \$5.1 million, up 36% from a year earlier. The district expects pension costs to rise over the next several years, including a \$1.5 million increase next year. Pension contributions are expected to rise because the commonwealth has increased its full actuarial required contribution. Rate caps are estimated to expire in 2017-2018, when actual increases are likely to be less than the cap.

The unfunded actuarial accrued OPEB liability was \$19 million as of Jan. 1, 2014. The district contributed \$757,986 toward its OPEB obligations in fiscal 2014, which equaled 39.2% of the annual required contribution. Pension and OPEB costs in fiscal 2014 totaled \$5.9 million, or 7.8% of total governmental fund expenditures.

The district's financial management practices are "standard" under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Highlights include:

- Monthly budget-to-actual reports to the board;
- Monthly investment reports to the board;
- A review of the past four or five years' data and consideration of future trends for budgeting purposes; and
- Maintaining an unassigned fund balance above 8% of expenditures, which the district has adhered to historically.

Net of commonwealth reimbursements, overall debt is moderate at \$2,186 per capita and low at 2.6% of market value. Carrying charges are a moderate 8.8% of fiscal 2014 expenditures. We consider the amortization of principal debt rapid, with officials planning to retire roughly 91% over 10 years and 100% by 2028. The district is reviewing a feasibility study and may require financing in the next three years to fund its capital improvement projects.

Outlook

The stable outlook reflects Standard & Poor's opinion of the district's strong finances and access to large and diverse employment centers. Despite the expected pension cost increases over the next few years, we believe the district will likely maintain sound operations and healthy reserves. Holding all else equal, fund balance deterioration to levels we consider adequate or low could result in a negative rating action. At the same time, if the district were to implement more-formalized policies under our FMA and maintain very strong fund balances throughout the next few years of pension increases, holding all else equal, we could raise the rating. Otherwise, we do not expect to change the rating in next two years.

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: Financial Management Assessment, June 27, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

Ratings Detail (As Of May 15, 2015)

Avon Grove Sch Dist GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed

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