

Rating Action: Moody's downgrades most enhanced ratings on Pennsylvania school districts by one notch; placed on review for further downgrade

Global Credit Research - 10 Sep 2015

Action affects 181 enhanced school district ratings

New York, September 10, 2015 -- Moody's Investors Service has downgraded the enhanced ratings on most school districts in the Commonwealth of Pennsylvania (Aa3 stable) by one notch, and placed them on review for further downgrade.

For districts enhanced by the commonwealth's pre-default intercept programs, Moody's has downgraded the programmatic rating to A2 from A1, and placed the programmatic rating on review for downgrade. This action affects the State Public School Building Authority Lease Revenue Intercept Program (Sec. 785) and the Pennsylvania School District Fiscal Agent Agreement Intercept Program (Sec. 633). As a result, we have downgraded 13 pre-default ratings on Pennsylvania school districts to A2 from A1. Each of these ratings is on review for downgrade, as is the pre-default rating on the Penn Hills School District (pre-default enhanced rating Baa1).

For districts enhanced by the commonwealth's post-default intercept program, Moody's has lowered the cap, or highest rating districts can receive due to the post-default enhancement, to A3 from A2. This cap is also on review for downgrade. As a result, Moody's has downgraded 164 post-default enhanced ratings to A3 from A2. Each of these ratings is on review for downgrade. There are 11 post-default ratings previously rated A3 or lower (because of lower underlying ratings); we do not downgrade these ratings with this action, though they all are on review for downgrade.

SUMMARY RATING RATIONALE

Please click on the following link to access the full list of affected credit ratings. This list is an integral part of this press release and identifies each affected issuer: http://www.moodys.com/viewresearchdoc.aspx?docid=PBM_PBM184242

The downgrade of the Commonwealth of Pennsylvania's school district intercept ratings is a consequence of the commonwealth's chronically late budgets and the lack of clarity surrounding its ability to honor intercept obligations in the absence of an approved and implemented budget. While we expect the commonwealth to cover any missed debt service payments on enhanced bonds, the current lengthy budget impasse has heightened risks to bondholders.

The downgrade of the pre-default programmatic rating on the State Public School Building Authority Lease Revenue Intercept Program (Sec. 785), the State Public School Building Authority Current Year Intercept Program and the Pennsylvania School District Fiscal Agent Agreement Intercept Program (Sec. 633) to A2 from A1 incorporates the lack of absolute certainty that the commonwealth would appropriate funds to school districts in time to cover missed debt service payments on a timely basis.

The lowering of the cap on school district bonds enhanced on a post-default basis (Pennsylvania Act 150 School District Intercept Program) to A3 from A2 also reflects the increased risks to bondholders given state budget delays, as well as competing claims for state aid from pre-default obligations, pensions, and charter school tuition.

The intercept-enhanced ratings for individual financings reflect Moody's assessment of credit risk pursuant to our methodology, "State Aid Intercept Programs and Financings: Pre and Post Default." Credit considerations include availability of funds, timing of state aid payments, state aid trend, strength of notification requirement, and timing between notification and intercept. Additional credit factors include a debt service coverage ratio and, for post-default structures, the underlying rating of the individual school districts.

OUTLOOK

The review for downgrade reflects the uncertainty regarding the amount and availability of state aid for debt service obligations given the commonwealth's prolonged budget stalemate, and the associated risks posed to

school districts, particularly those highly dependent on state aid for operations and with limited operating flexibility to offset delays in budgetary appropriations.

WHAT COULD MAKE THE RATING GO UP

- Stronger demonstrated track record of timely budget adoption and school appropriation funding
- Establishment of a clearer plan for provision of payments in the absence of a budget
- Upgrade of the Commonwealth of Pennsylvania's rating
- Upgrade of underlying ratings (applies to post-default enhanced ratings)

WHAT COULD MAKE THE RATING GO DOWN

- Failure to make debt service payments or appropriate school aid to allow issuers to make timely payments
- Downgrade of the Commonwealth of Pennsylvania's rating
- Further delays in budget approval which hinder school districts' ability to pay debt service and meet other obligations
- Downgrade of underlying ratings (applies to post-default enhanced ratings)

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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Abington School District, PA	Big Beaver Falls Area School District, PA
Allegheny Valley School District, PA	Big Spring School District, PA
Allegheny-Clarion Valley School District, PA	Blackhawk School District, PA
Altoona Area School District, PA	Bloomsburg Area School District, PA
Annville-Cleona School District, PA	Brandywine Heights Area School District, PA
Armstrong School District, PA	Bristol Township School District, PA
Athens Area School District, PA	Brookville Area School District, PA
Avon Grove School District, PA	Burrell School District, PA
Baldwin-Whitehall School District, PA	Carlisle Area School District, PA
Bedford Area School District, PA	Carmichaels Area School District, PA
Belle Vernon Area School District, PA	Central Valley School District, PA
Bellefonte Area School District, PA	Chambersburg Area School District, PA
Bellwood-Antis School District, PA	Charleroi Area School District, PA
Bensalem Township School District, PA	Chartiers-Houston School District, PA
Benton Area School District, PA	Cheltenham Twp. S.D. (Montgomery County), PA
Bentworth School District, PA	Chester Upland School District, PA
Bethlehem Area School District, PA	Chestnut Ridge School District, PA

Chichester School District, PA

Clearfield Area School District, PA

Coatesville Area S.D. (Chester), PA

Cocalico School District, PA

Commodore Perry School District, PA

Conemaugh Valley School District, PA

Connellsville Area School District, PA

Crawford Central School District, PA

Crestwood School District, PA

Cumberland Valley School District, PA

Dallas School District, PA

Daniel Boone Area School District, PA

Danville Area School District, PA

Dauphin County Technical School, PA

Deer Lakes School District, PA

Delaware Valley School District, PA

Donegal School District, PA

Dover Area School District, PA

Dubois Area School District, PA

Duquesne City School District, PA

East Allegheny School District, PA

East Stroudsburg Area School District, PA

Eastern Lancaster County School District, PA

Eastern Lebanon County School District, PA

Eastern York School District, PA

Easton Area School District, PA

Elizabethtown Area School District, PA

Ephrata Area School District, PA

Everett Area School District, PA

Fleetwood Area School District, PA

Forest City Regional School District, PA

Fort Cherry School District, PA

Frazier School District, PA

Freedom Area School District, PA

Garnet Valley School District, PA

Gateway School District, PA

General McLane Area School District, PA

Gettysburg Area School District, PA

Greater Latrobe School District, PA

Greencastle-Antrim School District, PA

Greensburg-Salem School District, PA

Greenville Area School District, PA

Hamburg Area School District, PA

Harbor Creek School District, PA

Haverford Township S.D. (Delaware County), PA

Hazleton Area School District, PA

Hermitage School District, PA

Highlands School District, PA

Hollidaysburg Area School District, PA

Homer-Center School District, PA

Jeannette City School District, PA

Jersey Shore Area School District, PA

Jim Thorpe Area School District, PA

Keystone Oaks School District, PA

Kiski Area School District, PA

Lakeview School District, PA

Lehighton Area School District, PA

Line Mountain School District, PA

Lower Dauphin School District, PA

Loyalsock Township School District, PA

McGuffey School District, PA

McKeesport Area School District, PA

Mercer Area School District, PA

Methacton School District, PA

Mid Valley School District, PA

Middletown Area School District, PA

Mifflinburg Area School District, PA

Millcreek Township School District, PA

Millersburg Area School District, PA

Mohawk Area School District, PA

Moon Area School District, PA

Moshannon Valley School District, PA

Mount Pleasant Area School District, PA

Mountain View School District, PA

Muhlenberg School District, PA

Nazareth Area School District, PA

Neshaminy School District, PA

Norristown Area School District, PA

North Penn School District, PA

North Pocono School District, PA

Northampton Area School District, PA

Northern Lehigh School District, PA

Norwin School District, PA

Octorara Area School District, PA

PA S.D. Fiscal Agt.Agmt.Inter.Prog. (Sec.633)

PA State Pub.Sch.Bldg.Auth. Lease Inter.Prog

Palmerton Area School District, PA

Panther Valley School District, PA

Penn Hills School District, PA

Pennsylvania (Commonwealth of)

PennsylvaniaSt.Pub.SBA.Curr.Yr.IntrceptProg.

Penn-Trafford School District, PA

Pequea Valley School District, PA

Philadelphia School District, PA

Philipsburg-Osceola School District, PA

Phoenixville Area School District, PA

Pine-Richland School District, PA

Pittsburgh School District, PA

Pittston Area School District, PA

Pocono Mountain School District, PA

Port Allegany School District, PA

Pottstown School District, PA

Pottsville Area School District, PA

Purchase Line School District, PA

Quaker Valley School District, PA

Quakertown Community School District, PA

Reading School District, PA

Red Lion Area School District, PA

Richland School District, PA

Ringgold School District, PA

Riverside School District, PA

Rochester Area School District, PA

Saucon Valley School District, PA

Schuylkill Haven Area School District, PA

Schuylkill Valley S.D., PA (Berks County)

Selinsgrove Area School District, PA

South Fayette Township School District, PA

South Park School District, PA

Southern York County School District, PA

Spring Grove Area School District, PA

St. Mary's Area School District, PA

State College Area Sch Dist, PA

Steelton Highspire School District, PA

Stroudsburg Area School District, PA

Susquenita School District, PA

Trinity Area School District, PA

Tulpehocken Area School District, PA

Tunkhannock Area School District, PA

Tussey Mountain School District, PA

Twin Valley School District, PA

Uniontown Area School District, PA

United School District, PA

Upper Adams School District, PA

Upper Darby School District, PA

Valley Grove School District, PA

W. Greene School District, PA

Wallenpaupack Area School Dist, PA

Warren County School District, PA

Waynesboro Area School District, PA

Wellsboro Area School District, PA

West Allegheny School District, PA

West Jefferson Hills School District, PA

West Mifflin Area School District, PA

West York Area School District, PA

Westmont Hilltop School District, PA

Whitehall Coplay School District, PA

Wilmington Area School District, PA

Wilson Area School District, PA

Wilson School District, PA

York City School District, PA

York Suburban School District, PA