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Ratings

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Summary:

Montour School District, Pennsylvania; General Obligation

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Credit Profile		
US$3.17 mil GO bnds ser 2017 due 04/01/2043		
Long Term Rating	A+/Negative	New

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Montour School District, Pa.'s series 2017 general obligation (GO) bonds. At the same time, we affirmed our 'A+' long-term rating and underlying rating on the district's existing GO debt. The outlook is negative.

The negative outlook reflects our view of the district's weak fiscal 2016 close, recent history of operating deficits, and high debt burden with very slow amortization.

The district's full faith and credit secures the bonds, subject to Act 1 Index limitations. 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 did not make a rating distinction given our belief that the district possesses the financial flexibility necessary to sustain identical ratings on its unlimited- and limited-tax GO bonds. Financial flexibility is represented by the district's adequate reserves, conservative budgeting, and tax-raising ability.

The series 2017 bond proceeds will be used to complete construction of a new kindergarten to fourth-grade elementary school.

The ratings reflect our opinion of the district's:

- Strong local economy with access to the Pittsburgh metropolitan statistical area,
- Very diverse tax base with very strong market value per capita, and
- Management's demonstrated willingness to make budget adjustments.

Partly offsetting the above strengths, in our view, are the district's:

- Below-average albeit adequate available fund balance in fiscal 2016, and
- High per capita debt burden with slow amortization.

Economy

Montour School District School serves an estimated population of 26,079. In our opinion, median household effective buying income (EBI) is strong at 125% of the national level and per capita EBI is very strong at 131%. The district's total $2.3 billion market value in 2017 is very strong, in our view, at $89,383 per capita. Assessed value (AV) has remained stable overall since 2015, totaling $2.7 billion in 2017. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 12.7% of AV.

Enrollment totaled 2,859 students in 2017, having decreased overall since 2013, but has increased in each of the past two years and should remain relatively stable.

The district is in Allegheny County, approximately seven miles west of Pittsburgh, and comprises the townships of Robinson and Kennedy and the boroughs of Pennsbury Village, Ingram, and Thomburg. The district is home to several shopping centers and businesses and is one of the largest commercial districts serving the areas west and south of Pittsburgh. While there are no major developments, the area's local economy remains stable with consistent residential and commercial growth. Despite losses incurred from tax appeals stemming from Allegheny County's revaluation, management reports all values have been recovered as a result of several developments happening within Robinson and Kennedy townships. Allegheny County's unemployment averaged 5.2% in 2016, slightly below the state average of 5.4%.

Finances

The district's available fund balance of $2.4 million is adequate, in our view, at 3.9% of general fund expenditures at fiscal year-end (June 30) 2016. The district reported a deficit operating result of 2.1% of expenditures in 2016. The district depends primarily on property taxes for general fund revenue (71.5%), followed by state aid (19.1%).

The district originally budgeted for a $2.9 million deficit in 2016, but ended with a smaller deficit of $1.3 million. According to management, the district would have ended close to break-even, but the district had to pay approximately $500,000 for one commercial tax appeal refund and $700,000 for a legal settlement. Several cost-saving measures, such as outsourcing certain positions and furloughing middle management, were included in the 2016 budget. The budget also included a tax levy increase to the Act 1 Index.

For fiscal 2017, the district received Act I exceptions for pensions and special education, which allowed it to increase property taxes above the index. Recent residential and commercial development also translated into additional local revenue. The district also made additional expenditure adjustments, including the elimination of some positions. Unaudited results for the year show a general fund surplus of $4.5 million, or 7.4% of expenditures. According to officials, the surplus also included a one-time tax increment financing payment of $800,000. The board voted to transfer $1 million of the surplus to the capital reserve fund for future capital projects. We estimate that this would leave the general fund with available reserves totaling about $5.9 million, which we consider strong at 9.7% of expenditures.

The district's budget for fiscal 2018 reflects a small deficit of about $100,000, though we believe the district is likely to outperform the budget, barring any unexpected variances; during the past three years, the district outperformed its budget by an annual average of $1.3 million. According to management, expenditure assumptions are conservative in that they assume full employment, but the district routinely is able to reduce personnel costs through attrition and other staffing changes. Management reports no contingent liabilities outstanding, such as significant tax appeals, that could come due before the end of the year.

In our view, management has taken meaningful steps to close its budget gap; in addition to the aforementioned actions, the district recently implemented an early retirement incentive, expects to see savings from the consolidation of elementary schools, and can increase property taxes under the Act I index. If the district is able to remain on target with its budget and posts a surplus for fiscal 2018, then we could revise the outlook to stable.

Management

We consider the district's management practices standard under our Financial Management Assessment (FMA) methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

Management bases the budget each year on its revenue and expenditure assumptions. Typically, historical trends from the past three fiscal years are analyzed and considered when arriving at these assumptions. The treasurer reviews and presents budget-to-actual reports monthly to the board of directors. The district maintains a formal three-year, long-term financial plan that it updates annually and shares with the board during the budgeting process.

The district lacks a formal long-term capital improvement plan, and budgets for projects as needed. The district uses commonwealth guidelines for investment and debt management, and lacks a formal debt policy. Investment holdings and earnings are reported to the board on a monthly basis. The district has a formal fund policy that calls for unassigned funds to be maintained within 1% to 8% of expenditures. The target is not tied to any specific cash flow needs.

Debt

Overall net debt is moderately high, in our opinion, at 7.6% of market value, and high at $6,752 per capita. Amortization is slow, with 22% of the district's direct debt scheduled to be retired within 10 years. The debt service carrying charge was 14.4% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

The district has about $137 million in total direct debt. According to officials, the district does not plan to issue any new debt in the next few years. The district has no alternative financings such as variable-rate or privately placed debt.

Pension and other postemployment benefit (OPEB) liabilities

In fiscal 2016, the district paid its full required contribution of $6.6 million, or 7.8% of total governmental expenditures, toward its pension obligations. The district also contributed $1.2 million, or 1.4% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2016. Combined pension and OPEB carrying charges totaled 9.2% of total governmental fund expenditures in 2016.

The district participates in the Pennsylvania State Employees' Retirement System (PSERS), a cost-sharing, multi-employer defined benefit plan. The district's required pension contribution is actuarially determined and calculated at the state level. Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 67, the district's net pension liability was $89.2 million as of 2016. The plan was 54.4% funded in 2016, based on the plan's fiduciary net position as a percentage of PSERS' total pension liability.

Pennsylvania school districts, all of which participate in this pension program, have seen their employer contributions increase sharply over the past five years. The contribution rate has risen to 25.84% of covered payroll in fiscal 2016 from 5.64% in fiscal 2011. Contribution rates increased to 30% for fiscal 2017, and are projected to level off at about 34% through fiscal 2026. Beginning in fiscal 2017, the state will annually fund 100% of its annual determined contribution, which, in our opinion, will reduce the size of the increases from now on. Moreover, the state will continue to reimburse 50% of the district's pension costs. Despite these actions, we expect pension costs to remain a source of pressure on school budgets and will factor how a district addresses these pressures into our credit analysis. We anticipate that the district's recent budget changes and its willingness to make future adjustments should help to manage pension costs in the short term.

Outlook

The negative outlook reflects our view that there is at least a one-in-three chance that we will lower the ratings over the next one to two years. In our opinion, the district's finances are more vulnerable given recent deficits and its high debt liability. We could lower the ratings if the district posts another deficit in 2018, reducing reserves to levels not commensurate with the current rating. Conversely, if the district's recent and continued budget adjustments are sufficient to maintain at least balanced operations and good reserves over the next two years, we could revise the outlook to stable.

Ratings Detail (As Of August 10, 2017)		
Montour Sch Dist GO bnds ser 2011 dtd 12/01/2011 due 11/15/2012-2024 2027 2030 2033 2036		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Underlying Rating for Credit Program	NR	Current
Montour Sch Dist GO State Credit Enhancement		
Long Term Rating	A+/Negative	Affirmed
Underlying Rating for Credit Program	NR	Current
Montour Sch Dist GO State Credit Enhancement (AGM)		
Unenhanced Rating	A+(SPUR)/Negative	Affirmed
Underlying Rating for Credit Program	NR	Current
Montour Sch Dist GO		
Underlying Rating for Credit Program	NR	Current
Unenhanced Rating	A+(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.