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Pennsylvania School District Ratings Based On State Aid Intercept Removed From Watch Neg And Withdrawn

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NEW YORK (Standard & Poor's) Dec. 11, 2015--Standard & Poor's Ratings Services has removed from CreditWatch and withdrawn its ratings on Pennsylvania school districts and community colleges that are based on Pennsylvania's state aid intercept program (currently rated 'A' or 'A+' depending on bond provisions). The ratings had been placed on CreditWatch with negative implications on Sept. 4, 2015.

The withdrawal is due to the current impasse on the fiscal 2016 budget, which has extended over five months past the start of the fiscal year. In the absence of an adopted budget, there are no state funds flowing to Pennsylvania school districts and community colleges and, therefore, no funds to intercept. The duration of the budget impasse and the lack of alternative measures to ensure its proper functioning, in our view, indicate a lack of commitment to the state aid intercept program. The state has a history of late budget adoption. In fact, it has only had three on-time budgets over the past 13 fiscal years. While most of those budget delays had been short-lived with seven of the ten delays lasting less than 20 days, the other three, including this one, have gone 100 days or more. In past instances of late budget adoption, the state had exhibited strong oversight of the program and demonstrated that it had sufficient revenues available to make debt service payments if needed. It is our view that the current level of oversight and appropriation authority for education aid is insufficient to ensure timely payment of debt service, effectively eliminating the benefit of the enhancement program.

Obligations that previously received program ratings also have GO pledges to the bonds from the individual schools or a revenue pledge, in the case of community colleges. In cases where issuers have requested Standard & Poor's underlying ratings for credit program, we have adjusted the ratings to reflect the primary pledge on the bonds and the credit characteristics of the individual district or community college without regard to the enhancement program characteristics. Alternatively, for those bonds that do not have ratings based on their local GO or community college revenue pledge, we have withdrawn our ratings.

Intercept or withholding programs operate on the strength and availability of state aid in the event a local government cannot make its full and timely debt service payment, and given the frequency with which Pennsylvania budgets are delayed (10 out of the past 13 budgets), we believe that there could be periods in which sufficient state aid will not be available to provide enhancement through a state intercept. While we consider school aid to be a priority state expenditure, the budget stalemate has led us to conclude that Pennsylvania's state aid payments are no longer a reliable and stable source of funds.

Each state program is analyzed according to the program type and the rating is based on the characteristics of the particular program and funding mechanisms. Although late budget adoption is not unique to Pennsylvania, we consider the length of the budget delay as well as the frequency as an anomaly. As such, our removal of the state credit enhancement rating for the Pennsylvania program does not indicate a change in view of the strength of our assessment of the other rated state credit enhancement programs.

The Pennsylvania state enhancement program rating was based on the withholding provisions of Act 150, which amended section 633 of the Public School code. Standard & Poor's also assigned a program rating to lease bond obligations of Pennsylvania's public school building authority based on the provisions of Sections 785 and 790 of the Pennsylvania Public School Code, and to debt obligations of community colleges under Section 1913-A of the Pennsylvania Public School Code. The program automatically applies to all school districts and community colleges in the state.

Under these provisions, the secretary of education automatically withholds state aid from any school district or community college that fails to meet debt service or fails to pay lease rentals due to the State Public School Building Authority, a municipal authority, or nonprofit corporation. The withheld amount is the lesser of unpaid principal and interest or lease requirements, or the amount of state aid remaining for the fiscal year. These funds are transferred directly to the bond trustee, or the municipal authority or nonprofit corporation. The secretary of education requires a school district's annual financial report to include debt service payable during the fiscal year. The ratings that were rated 'A+' include structural provisions in bond legal documents relating to notification and timing requirements.

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Obligors Affected	
Aliquippa Sch Dist	Midland Boro Sch Dist
Allegheny Vy Sch Dist	Mid-Valley Sch Dist
Belle Vernon Area Sch Dist	Monessen Sch Dist
Bentworth Sch Dist	Monroe Cnty Area Voc Tech Sch Auth
Bethlehem Area Sch Dist	Morrisville Boro Sch Dist
Bristol Boro Sch Dist	North East Sch Dist
Carbon Cnty Area Voc Technical Sch Auth	Northern Lebanon Sch Dist
Catasauqua Area Sch Dist	Old Forge Sch Dist
Charleroi Area Sch Dist	Panther Vy Sch Dist
Chester Upland Sch Dist	Penn Cambria Sch Dist
Clearfield Cnty Career & Tech Ctr	Penn Hills Sch Dist
Coatesville Area Sch Dist	Pennsylvania St Pub Sch Bldg Auth
Comnty Coll of Beaver Cnty	Philadelphia Sch Dist
Crawford Cnty Career & Tech Ctr	Reading Sch Dist
Dallas Sch Dist	Riverside Sch Dist
East Allegheny Sch Dist	Scranton Sch Dist
Erie City Sch Dist	Sharpsville Area Sch Dist
Farrell Area Sch Dist	Shenandoah Vy Sch Dist
Frazier Sch Dist	St Clair Area Sch Dist
Greenville Area Sch Dist	Steel Vy Sch Dist
Harrisburg Area Comnty Coll	Sto-Rox Sch Dist
Harrisburg Sch Dist	Tunkhannock Area Sch Dist
Hazleton Area Sch Dist	Venango Tech Ctr
Hollidaysburg Area Sch Dist	West Mifflin Area Sch Dist
Homer Ctr Area Sch Dist	Westmoreland Cnty Comnty Coll Auth
Jim Thorpe Area Sch Dist	Wilkes-Barre Area Career & Tech Ctr
Lackawanna Cnty Career Technol Ctr	Wilkesburg Boro Sch Dist
Ligonier Vy Sch Dist	Williamsport Area Sch Dist
McKeesport Area Sch Dist	York City Sch Dist
	York Cnty Sch of Tech Auth

RELATED CRITERIA AND RESEARCH

Related Criteria

USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

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