

Rating Action: Moody's Downgrades East Allegheny SD, PA to B2 Und./Ba3 Enh.; Outlook Remains Negative

Global Credit Research - 11 Aug 2017

New York, August 11, 2017 -- Summary Rating Rationale

Moody's Investors Service has downgraded East Allegheny School District, PA's underlying general obligation rating to B2 from Ba3 and post-default enhanced rating to Ba3 from Ba1, affecting approximately \$19.1 million of the district's \$38.1 million in outstanding debt. The outlook on both ratings remains negative.

The downgrade of the underlying rating to B2 reflects a further deteriorating fund balance and narrowing liquidity position resulting from continuously increasing charter and special education expenditures as well as required pension contributions. Additionally, general operating expenses continue to outpace revenues. The rating also recognizes the district's modest and somewhat stagnant tax base, below-average wealth and income levels, and elevated debt burden with swap exposure.

The Ba3 post-default enhanced rating reflects Moody's assessment of the district in the context of state aid that it receives and the rating methodology titled, "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 requirements, and timing between notification and intercept. Additional credit factors include the debt service coverage ratio and the underlying rating of the district. For additional information regarding Moody's recent action regarding the Pennsylvania School District Intercepts, please refer to our report dated August 15, 2016.

Rating Outlook

The negative outlook on the underlying rating reflects the district's ongoing financial challenges that we expect will persist despite ongoing expenditure reductions. Limited revenue raising ability further strains the current weak financial position.

The enhanced rating has a negative outlook based on this rule: for underlying ratings at the post default ceiling (A3) or higher, the outlook mirrors that of the Commonwealth of Pennsylvania (Aa3 stable). For underlying ratings one or two notches below the ceiling (Baa1 or Baa2), the outlook is the lower of the outlook on the underlying rating or on the Commonwealth. For underlying ratings three notches below the ceiling (Baa3) or lower, the outlook is the same as the underlying.

Factors that Could Lead to an Upgrade

Achieve and sustain multiple years of structural balance in General Fund

Significant tax base growth

Material decline in debt burden

Factors that Could Lead to a Downgrade

Further deterioration in financial position

Material tax base declines

Continued deferral of ongoing expenditures

Litigation settlement with adverse effect on the district's financial position

Legal Security

The district's bonds are secured by its general obligation pledge, exempt from Act 1 property tax limitations.

Use of Proceeds

N/A

Obligor Profile

The district is a small, suburban school district serving approximately 1,600 students in the Boroughs of East McKeesport, Wall, and Wilmerding and North Versailles Township in Allegheny County, Pennsylvania.

Methodology

The principal methodology used in the underlying rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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Michael Higgins
Lead Analyst
Regional PFG Northeast
Moody's Investors Service, Inc.
7 World Trade Center
250 Greenwich Street
New York 10007
US
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Orlie Prince
Additional Contact
Regional PFG Northeast
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376



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