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New Issue

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Dallas School District, PA

New Issue - Moody's assigns A1 underlying, A3 enhanced to Dallas SD, PA's $16.5M Series 2017 GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned an A1 underlying rating and an A3 enhanced rating to Dallas School District, PA's $16.5 million General Obligation Bonds, Series of 2017. Moody's maintains an A1 underlying on the district's $62.9 million in outstanding general obligation debt and an A3 enhanced rating on the Series 2010B, 2012, 2013, and 2015 bonds. The enhanced rating has a stable outlook.

The A1 underlying rating incorporates the district's moderately sized tax base with above-average wealth levels, narrow reserve levels, elevated debt, and average pension liabilities.

The A3 enhanced rating on the district's series 2010B, 2012, 2013, 2015, and 2017 bonds reflects Moody's assessment of each issuer participating in the programs pursuant to the 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 the underlying ratings of the individual school districts. For additional information regarding Moody's recent action regarding the Pennsylvania School District Intercepts, please refer to our report dated August 15, 2016.

Credit Strengths

» Moderately sized tax base

» Above-average wealth indicators

» Historical willingness to increase property taxes

Credit Challenges

» Narrow reserve levels

» Elevated debt burden

Rating Outlook

The enhanced rating has a stable outlook, which mirrors the outlook on the Commonwealth of Pennsylvania (Aa3 stable).

Factors that Could Lead to an Upgrade

- Increased reserve and liquidity levels
- Material increases to the tax base
- Significant reduction in the debt burden

Factors that Could Lead to a Downgrade

- Multiyear trend of reserve draws
- Increased debt burden adversely affecting the district's financial position
- Substantial declines in the tax base

Key Indicators

Exhibit 1

Dallas School District, PA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 1,162,246	$ 1,219,017	$ 1,222,566	$ 1,272,719	$ 1,276,891
Full Value Per Capita	$ 56,031	$ 59,250	$ 58,905	$ 61,045	$ 61,245
Median Family Income (% of US Median)	115.5%	122.7%	128.0%	125.6%	125.6%
Finances					
Operating Revenue ($000)	$ 31,807	$ 32,977	$ 33,507	$ 34,872	$ 36,143
Fund Balance as a % of Revenues	7.1%	7.7%	7.6%	5.8%	7.2%
Cash Balance as a % of Revenues	14.9%	17.3%	16.5%	14.4%	15.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 63,040	$ 43,880	$ 62,123	$ 41,967	$ 57,351
Net Direct Debt / Operating Revenues (x)	2.0x	1.3x	1.9x	1.2x	1.6x
Net Direct Debt / Full Value (%)	5.4%	3.6%	5.1%	3.3%	4.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.1x	1.6x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	3.1%	4.5%	4.5%

Source: Moody's Investors Service

Detailed Rating Considerations

Pennsylvania Intercept Program

The district's 2010B, 2012, 2013, 2015 and 2017 series bonds are enhanced on a post-default basis by the Pennsylvania School District Enhancement Program. In the case of nonpayment of debt service by a school district, the Secretary of Education of the Commonwealth of Pennsylvania (Aa3 stable) is required to directly remit appropriated state aid to bondholders to cure the deficiency. Payments can be accelerated within the current fiscal year and all forms of state aid are interceptable. Additionally, Pennsylvania passed a law on July 13 that would provide for state funds to be intercepted and diverted to bondholders in the event of a default even without appropriations due to school districts. In fiscal 2016, state aid net of pension and charter school costs covered debt service 2.17 times.

Economy and Tax Base: Moderately Sized Tax Base West of Scranton

The $1.6 billion tax base is expected to continue experiencing slow but steady growth from modest new development. Located in Luzerne County, just west of Scranton, the district has a number of small commercial developments in progress including a strip mall and new AutoZone (Baa1, stable senior unsecured). The district's top 10 taxpayers are also diverse comprising just 2.6% of assessed valuation. Management reports the principal payers are currently stable.

Wealth levels in the district are above-average, with median family income and per capita income at 125.6% and 108.0% of national medians, respectively. Additionally, at $74,578, full value per capita is favorable when compared to the state median.

Financial Operations and Reserves: Stable, Albeit Narrow, Reserve Levels

The district's financial position is expected to remain stable yet narrow given rising fixing costs. Fiscal 2015 ended with a $542,000 deficit reducing the General Fund balance to $2 million, or 5.8% of revenues, down from 10.1% in fiscal 2011. The deficit was driven by increased health care costs that exceeded budget expectations.

For fiscal 2016, the district's budget remained stable and included a 2.3% property tax increase (the Act 1 index). The district was minimally impacted by the state budget impasse and realized an operating surplus of $607,000, bringing reserves up to $2.6 million or 7.2% of revenues. The majority of the districts revenue is derived from local property taxes, which accounted for 66.4% of General Fund revenues in fiscal 2016.

The district adopted a balanced budget for fiscal 2017 and, given year-to-date performance, anticipates that fund balance will grow by approximately $565,000 to $3.2 million. Looking forward, the district expects to maintain structural balance by increasing local revenues and potential savings associated with collective bargaining contracts which are currently being negotiated.

LIQUIDITY

The district's liquidity position is also expected to remain stable. Fiscal 2016 ended with a cash balance of $5.7 million or 15.7% of revenues. The district also has approximately $237,646 in additional liquidity in the Capital Reserve Fund.

Debt and Pensions: Elevated Debt Burden and Average Pension Liabilities

The district’s debt burden is above average with net debt at 4.1% of full valuation and rises to 5.3% of full valuation when overlapping debt is considered. With no future borrowing planned and the potential for refundings, the district's debt is expected to remain manageable. Amortization is slow with only 30.2% of principal repaid in ten years. In fiscal 2016, debt service accounted for 12.2% of operating expenditures.

DEBT STRUCTURE

All of the district's bonds are fixed rate and mature over the long term.

DEBT-RELATED DERIVATIVES

The district is not party to any swap or derivative agreements.

PENSIONS AND OPEB

The district participates in the Pennsylvania State Public School Employees Retirement System, a multi-employer, defined benefit retirement plan. While the district's fiscal 2016 contribution was manageable at $1.7 million or 4.9% of operating expenses, contributions have more than tripled since 2011. Mandated future increases will continue to pressure the district's finances. In fiscal 2016, the Moody's adjusted net pension liability (“ANPL”) was $44.7 million, or an average 1.24 times operating revenues and 2.87% of full valuation. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The district also offers other post employment benefits which accounted for 1.6% of operating expenses.

The district's total fixed costs including pensions, debt service and post employment health benefits totaled $6.6 million or an above average 18.7% of fiscal 2016 expenditures.

Management and Governance

Pennsylvania School Districts have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Schools major revenue source, property taxes, are subject to an Act 1 cap, which limits property taxes above an Act 1 index subject to certain exceptions. The Act 1 index is based on inflation. However, the cap still allows for moderate revenue-raising ability. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Pennsylvania has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

Dallas School District is governed by long-standing management team that has maintained stable financial operations.

Legal Security

The district's bonds are secured by its general obligation pledge, subject to the Act 1 index.

Use of Proceeds

Proceeds from this issuance will finance the construction of a new elementary school.

Obligor Profile

The Dallas School District serves approximately 2,700 students in the Borough of Dallas and Dallas Township, Franklin Township and Kingston Township in Luzerne County.

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.

Ratings

Exhibit 2

Dallas School District, PA

Issue	Rating
General Obligation Bonds, Series of 2017	A1
Rating Type	Underlying LT
Sale Amount	$16,540,000
Expected Sale Date	08/09/2017
Rating Description	General Obligation Limited Tax
General Obligation Bonds, Series of 2017	A3
Rating Type	Enhanced LT
Sale Amount	$16,540,000
Expected Sale Date	08/09/2017
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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