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Summary:

Fairview School District, Pennsylvania; General Obligation; School State Program

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Credit Profile		
US$8.285 mil GO bnds ser 2016 A due 08/01/2029		
Long Term Rating	AA-/Stable	New
US$2.68 mil GO bnds ser 2016B due 08/01/2029		
Long Term Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating to Fairview School District, Pa.'s series 2016A and B general obligation (GO) bonds and affirmed its 'AA-' rating on the district's existing GO debt. The outlook is stable.

The district's full-faith-and-credit pledge secures the bonds. The Act 1 Index under Pennsylvania state statute restricts a district's ability to raise the tax levy above a certain index, which is determined by the Pennsylvania Department of Education. Despite these limitations, we did not make a rating distinction for the limited-tax GO pledge given the district's very strong budgetary flexibility. The district plans to use series 2016A and B bond proceeds to currently refund its 2006 and 2011 series, respectively, for present value savings. There will be no extension of maturities.

The rating reflects our opinion of the district's general creditworthiness, including its:

- Strong incomes and very strong property wealth;
- Strong budgetary performance guided by sound management practices and policies that contribute to very strong available fund balance levels; and
- Low-to-moderate debt burden.

However, rapidly increasing commonwealth-mandated retirement costs offset those strengths.

We note that Pennsylvania's delayed budget adoption for fiscal 2016 had placed fiscal pressure on school districts across the commonwealth. However, management indicates that it did not experience any issues regarding liquidity due to the impasse and that it made all its debt service payments on time. In addition, the commonwealth recently distributed school aid due to districts during the first six months of fiscal 2016 and the governor recently allowed the fiscal 2016 budget to pass without his signature, thus allowing for the regular disbursement of state aid for the remainder of the year.

Economy

Fairview School District serves an estimated population of 10,132. Median household and per capita effective buying incomes in the district are strong at 118% and 113% of national levels, respectively. Market value totaled $959.1 million in 2016, which we consider very strong at $94,661 per capita. Assessed value (AV) grew by a total of 2.3%

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since 2014 to $928.3 million in 2016. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 5.2% of AV.

The school district provides grade K-12 education in one elementary school, one middle school, and one high school. Enrollment has been stable, decreasing only 0.8% to 1,642 in the current academic school year from 1,655 in 2010-2011 and school officials are projecting that trend will continue over the next five years, with enrollment falling slightly to 1,632 by 2019-2020. Enrollment, however, has little effect on state aid.

The district is comprised of the township of Fairview and encompasses approximately 29.2 square miles in Erie County, approximately 15 miles west of Erie, the county seat. The district is bordered to the north by Lake Erie and is primarily residential with some agricultural land use. The largest employers are Pleasant Ridge Manor, a nursing home (447 employees); Parker White Metal (349); and Grimm Industries (348). County unemployment averaged 4.5% in December 2015, remaining below the commonwealth and national rates of 4.7% and 5%, respectively.

Finances

The district's available fund balance of $2.8 million is strong, in our view, at 12.6% of general fund expenditures at fiscal year-end (June 30) 2015. The district reported a surplus operating result at 1.4% of expenditures in 2015. It depends primarily on property taxes for general fund revenue (70.8%), followed by state aid (27.4%).

The district's budgetary performance has been strong, in our view, demonstrated by the posting of five operating surpluses in the last six audited years with the district's only draw due primarily to a transfer for capital. The 2015 budget included a 3% levy increase above the Act 1 limit of 2.5%, using an exception for retirement, as well as the inclusion of a $300,000 draw on committed reserves to balance the budget. However, the district replenished those reserves and finished the year posting a $346,000 surplus, due primarily to tax revenues coming in over budget, and expenditures--reflecting medical claims and pension contributions--coming in better than anticipated. The 2015 surplus increased available fund balance to $2.8 million, or what we view as a strong 12.6% of expenditures. However, the district has also committed about $1.9 million in reserves to mitigate rising pension costs that officials indicate can be made available through simple motion of the board. When including these committed reserves, available fund balance rises to $4.7 million, or a very strong 21.4% of 2015 expenditures.

The 2016 budget included another levy increase of 2.8% above the Act 1 limit of 2.2% for a retirement exception, as well as a $249,000 fund balance appropriation to balance the budget, in line with historical practice. With about three months remaining in the current fiscal year, officials indicate they are expecting to finish the year with balanced operations, after accounting for a $1.3 million transfer to the capital projects fund, with budget-to-actuals showing underperforming revenues being balanced out by better-than-anticipated expenditures. From now on, the district expects assigned and unassigned fund balances to remain stable but it is likely it could use some committed reserves to offset rising pension costs. Given the strong and stable budgetary performance, we expect future reserves to main stable or to decline slightly, as the district may use committed reserves for rising pension costs and use future operating surpluses as transfers to the capital projects fund to build up those reserves to help finance the upcoming school renovation project.

Management

We consider the district's management practices "good" under our financial management assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

When drafting the budget, management budgets for flat state aid and employs what we view as conservative assumptions as actuals typically outperform the budget year after year. Management also analyzes at least three years of historical data when drafting the budget, which is presented monthly to the board with actuals. In addition to maintaining a balanced, rolling long-term financial plan that projects revenues and expenditures forward five years, officials also annually update the district's five-year capital plan, which identifies funding sources. Although the district does not maintain a debt management policy, it does maintain a formal investment policy and reports investment performance and holdings monthly to the board. The district has also adopted a policy that outlines a minimum unassigned fund balance policy outlining a floor at 7.75% of annual expenditures.

Debt

At 3.0% of market value and $2,821 per capita, overall net debt is moderate, in our view. Amortization is fairly rapid, with 61% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 10.2% of total governmental fund expenditures (excluding capital outlay) in fiscal 2015, which we consider moderate.

In 2011, the district entered into a note with PNC Bank with a fixed 3.4% interest rate that matures in 2021 for $975,000, of which about $529,000 remains outstanding. Although the agreement does include events of default that result in the acceleration of full and immediate payment, we believe the district maintains sufficient liquidity to withstand such an occurrence. Additionally, the agreement allows it to fully prepay the note but with a penalty. The district plans to retire all current debt outstanding by 2029, but we note that it has significant future debt plans to renovate the high school in fiscal 2020 or 2021. The amount of debt it could issue is currently uncertain, but preliminary cost estimates for the project are coming in at around $40 million.

Pension and other postemployment benefit liabilities

In fiscal 2015, the district contributed its contractually required contribution of $2.2 million, or 9.7% of total governmental expenditures, toward its pension obligations. In fiscal 2015, it also paid $281,000, or 1.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges totaled 11.0% of total governmental fund expenditures in 2015, which we view as high.

A long-term credit consideration is the district's pension obligation as officials expect contributions to the commonwealth pension system will continue to rise in the next three-to-five years, which could pressure the budget. The district participates in and contributes to the commonwealth-administered Pennsylvania Public School Employees' Retirement System, a cost-sharing, multiemployer, defined-benefit plan. The plan is below adequately funded, in our opinion, with a plan fiduciary net position as a percentage of the total pension liability at 57%, based on Governmental Accounting Standards Board Statement No. 68. At fiscal 2015 year-end, the district had $1.9 million in reserves committed to mitigate these pension increases. The district also offers OPEBs in the form of medical, dental, and prescription drug insurance to eligible retirees, and it funds OPEBs through pay-as-you-go financing. The OPEB unfunded actuarial accrued liability equaled about $2.3 million at July 1, 2014, the latest valuation.

Outlook

The stable outlook reflects our view of the district's strong budgetary performance, supported by good management practices and policies that contribute to very strong available fund balance levels. Lending to rating stability are the district's strong incomes and very strong wealth. As such, we do not expect to change the rating within the outlook's two-year horizon.

Upside scenario

We could raise the rating should, all else equal, the district maintain sustained strong budgetary performance and increase fund balance to levels in line with peers at a higher rating in light of rapidly rising retirement costs and a sizable future capital project.

Downside scenario

Should budgetary pressures arise that force the district to reduce reserves to levels in line with lower rated peers, then we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of April 1, 2016)		
Fairview Sch Dist GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Fairview Sch Dist GO		
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Unenhanced Rating	AA-(SPUR)/Stable	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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.