S&P Global
Ratings

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Summary:

Boyertown Area School District, Pennsylvania; General Obligation

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Credit Profile		
US$8.545 mil GO bnds ser 2019 due 10/01/2025		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings revised its outlook to stable from negative and affirmed its 'AA-' long-term rating on Boyertown Area School District, Pa.'s existing general obligation (GO) bonds. At the same time, we assigned our 'AA-' long-term rating to the series 2019 GO bonds.

The stable outlook reflects our opinion that the district's recent use of its available reserves will dissipate over the next few years as it is our expectation that the district will return to balanced operations (even after transfers out of the general fund) and possibly add to its available reserves during our outlook period. Fiscal 2019 (June 30) general fund results are expected to be positive once the audit is completed. Despite a projected use of reserves for fiscal 2020, it is anticipated that the use will be lower than it was between fiscal years 2015-2018.

Security

The district's full-faith-and-credit GO pledge as to amount and rate secures the series 2019 GO bonds. It is our understanding that proceeds will be used to currently refund all or a portion of the series 2012 and series 2013 bonds for interest cost savings only. Since both series were originally used to refundseries prior to 2006, the 2019 bonds are not subject to the Pennsylvania commonwealth statute, the Act 1 Index.

The district has outstanding bonds that are subject to limitations established by the Act 1 Index. Under Pennsylvania commonwealth statute, the Act 1 Index restricts a district's ability to raise the tax levy higher than a certain index, which the Pennsylvania Department of Education determines. Despite these limitations, we rate the limited-tax GO debt at the same level as our view of the district's general creditworthiness, reflected in the unlimited-tax GO bond rating, given a lack of limitations on the fungibility of resources available for debt service.

Credit summary

Boyertown Area School District, like many Pennsylvania school districts, has been challenged over the past five years by material annual cost increases required by the Public School Employees' Retirement System (PSERS) to help fund its pension and other postemployment benefits (OPEB) plan. These cost increases, as well as other expenses, has caused structural imbalance in its general fund for four straight fiscal years (2015- 2018-June 30) that reduced a material portion of its available reserves. Fiscal 2019 is anticipated to end in a surplus, once the audit is complete and the expectation is to utilize reserves again for fiscal 2020 but not as much as during the four-year period of structural imbalance. The goal of the district's management is to achieve balanced operations in its general fund over the next few years and potentially build up reserves again.

If there is a sustained structural imbalance of general fund operations or if there is a material use of reserves that we feel will leave the district with a level of reserves that is no longer comparable with those of similarly rated peers, it could pressure the rating.

The rating reflects our opinion of the district's:

- Participation in the Reading metropolitan statistical area (MSA);
- Good to strong income indicators and strong market value per capita; and
- Overall moderate net debt profile.

We believe the above strengths are offset by recent and projected use of available reserves mainly related to rising pension costs associated with PSERS.

Economy

Boyertown Area School District comprises an area of approximately 100 square miles while serving an estimated population of 48,717 that is in the southeastern part of Pennsylvania and straddles the Montgomery-Berks county line. The district is comprised of the townships of Colebrookdale, Douglass, Earl, and Washington Townships and the boroughs of Bally, Bechtelsville, and Boyertown in Berks County, plus the township of Douglass, New Hanover and Upper Frederick in Montgomery County.

The local economy around the district is stable and residents have additional employment opportunities throughout the Reading MSA including Philadelphia.

The average unemployment rate for Berks County for calendar 2018 was 4.2%, which was basically on par with the state and national rates of 4.3% and 3.9%, respectively. The average unemployment rate for Montgomery County for calendar 2018 was 3.4%, which was lower than the state and national rates of 4.3% and 3.9%, respectively.

In our opinion, the per capita effective buying income (EBI) is good at 110% when compared with the national level while the median household EBI is strong at 126% of the national level. The school district is characterized by rolling hills and considerable portions of land are still used for agricultural purposes. The district is primarily residential (about 82% of taxable value) with commercial and industrial providing about 12%. Market value totaled $3.8 billion in 2019, which we consider strong at $78,428 per capita. Taxable value has increased slightly by a total of nearly 8.2% since 2015 to $2.7 billion in 2019. Roughly 2.8% of taxable value comes from the 10 largest taxpayers, representing a very diverse tax base in our opinion. Management is expecting at least flat values in the tax base for the next few years.

The district operates seven elementary schools with two junior high-schools and one high-school serving approximately 6,804 students for fiscal 2020. Enrollment has been declining about 1% per year for the past few years as officials cite overall lower birth rate. Management believes enrollment has bottomed out and should remain near the 2020 number of students by fiscal 2023. Historically, enrollment trends have not significantly affected the district's state aid allocation as the latter was tied primarily to its wealth. Since the poverty level has increased around the district, the district has seen an increase in state aid.

Finances

According to new management, its goal is to stop the recent structural imbalances in its general fund over the next few years to achieve at least balanced operations as each fiscal year ends and to try to rebuild its reserves. The 2020 budget depicted a use of reserves of approximately 0.71% of operating expenses, which is about 0.30% lower than recent budget years.

Once the fiscal 2019 audit is complete it will show a surplus of $1.2 million or about 1% of operating expenses, and this would be prior to possibly transferring out surplus amounts to maybe the technical reserve and/or its capital reserve funds. Officials attribute the surplus to lower expenses than budgeted and one of reasons attributed to the savings was due to not being able to attract some needed personnel. In addition, maintenance costs with an older building with declining enrollment has caused some stress on its finances and there could be a possible closure of the building which could alleviate this pressure. Officials are seeking to keep the unassigned portion of its reserves between 6% and 8% of operating expenses.

For fiscal 2018, the district posted a $213,721 surplus in its general fund prior to the transfers in and transfers out, which was approximately four times better than what was budgeted, which management cites was mainly to higher tax collections, including delinquent on its revenue side. After transfers in and out of the general fund, the available reserves were reduced by $1.3 million, or 1.1% of operating expenses. The available balance (committed and unassigned) was $11.1 million or 10% of operating expenses, which we consider strong. The unassigned amount was $7 million or 6.3% of operating expenses.

The district has been raising taxes, within the Act 1 level, about 2.5% in each of the past few years and rose about 3% for fiscal 2018. For both 2019 and 2020 the district was credited with going above the index with respect to special education exception. The plan is to replenish the unassigned portion up to the 8% mandated limit and potentially refill the committed portion slowly each year as the PSERS requirement is expected to level off after 2019.

According to the 2018 audit, revenues from local sources (including property and other taxes) represented 66% of the total general fund revenues while state aid contributed 32%. Revenue from state aid remains somewhat uncertain, although to date the district has received its allotted share, and we have witnessed the district levy tax increases so as to maintain strong available reserves and we would expect this trend to continue.

Financial Management Assessment

We consider the district's management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas. The district budget process includes a line-by-line analysis for each department and has many years of prior information with emphasis on the last three years. The budget can be amended as needed and the board receives a monthly budget to actual report. The district does have a long-term financial plan that is five years long that is updated each year and shared with the board. There is no formal long-term capital plan but officials meet annually to discuss any capital needs. The district's formal investment policy is guided by state statute and management also provides monthly investment holdings reports to the board. There is no formal debt management policy but it adheres to state guidelines. The district has an informal goal to maintain unassigned reserves at a level between 6% and 8% of operating expenses to ensure cash flow in case of any unexpected increase in expenditures or shortfalls in revenues.

Debt

The district's overall net debt burden is moderate, in our view, at $3,004 per capita and at 3.8% of market value. Amortization is slow, with 32% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were low at 5.5% of governmental fund expenditures, less capital outlay, in fiscal 2018. The district has a loan with a local bank for interest savings with no acceleration call provisions that could cause a strain on the district's reserves and/or liquidity. It is our understanding that the district has no plans to issue additional debt in the next two years.

Pension and other postemployment benefit liabilities

The district participates in and contributes to the commonwealth-administered Pennsylvania PSERS, a cost-sharing, multiple-employer, defined-benefit plan. Its required pension contribution is actuarially determined and calculated at the state level. The district paid its full required contribution of $16.5 million toward its pension obligations in fiscal 2018, or 12.7% of total governmental expenditures. In fiscal 2018, it also paid $432,448, or 0.3% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations. Combined pension and OPEB carrying charges were 13% of total governmental fund expenditures in fiscal 2018, which we consider somewhat high and expect to remain so in fiscal 2019. Although employer contributions to PSERs are likely to moderate beginning fiscal 2019, we believe pension costs will remain a source of pressure on the district's budget.

According to Governmental Accounting Standards Board (GASB) Statement No. 67, PSERS' net pension liability, at June 30, 2018, was $48 billion with a funded ratio--the plan's fiduciary net position as a percentage of total pension liability--of 54.0%, up from 51.8% in fiscal 2017. The district's proportion of the net PSERS liability, as of the most recent actuarial valuation 2017, was $193.6 million, or 0.39%; this reflected statutorily required contributions related to all reporting units' statutorily required contributions for the measurement period. The GASB 75 valuation of the net OPEB liability for the district is $16.2 million and with the PSERS plan share of $8 million, the total liability is close to $24.2 million. The district expects to continue to fund this OPEB liability on a pay-as-you-go basis.

Outlook

The stable outlooks reflects S&P Global Ratings' expectation that the district will make the necessary adjustments to achieve near balance operations in its general fund to avoid further material use of its available reserves. The district's participation in the broad Reading MSA economy lends to rating stability and we do not expect the rating to change within the two-year outlook horizon.

Downside scenario

Assuming all else equal, if the district ends fiscal 2020 materially worse than our expectations and available reserves are negatively affected, or if the fiscal 2021 budget is materially worse than fiscal 2020 budget, the rating could be pressured.

Upside scenario

Assuming all else equal, if the district sustains positive general fund performance and available reserves are materially increased to a level we feel is comparable with higher rated peers, we could raise the rating.

Related Research

Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014

Ratings Detail (As Of October 29, 2019)		
Boyertown Area Sch Dist GO bnds ser 2014 due 10/01/2043		
Long Term Rating	AA-/Stable	Outlook Revised
Underlying Rating for Credit Program	NR	
Boyertown Area Sch Dist GO bnds ser 2015 due 10/01/2038		
Long Term Rating	AA-/Stable	Outlook Revised
Underlying Rating for Credit Program	NR	
Boyertown Area Sch Dist GO St Credit Enhancement		
Long Term Rating	AA-/Stable	Outlook Revised
Underlying Rating for Credit Program	NR	
Boyertown Area Sch Dist GO (BAM)		
Unenhanced Rating	AA-(SPUR)/Stable	Outlook Revised
Boyertown Area Sch Dist GO (BAM) (SECMKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Outlook Revised

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.