

CREDIT OPINION

27 April 2023



Contacts

Susanne Siebel +1.212.553.1809
 AVP-Analyst
 susanne.siebel@moodys.com

Valentina Gomez +1.212.553.4861
 VP-Senior Analyst
 valentina.gomez@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

Pennsbury School District, PA

Update to credit analysis

Summary

Pennsbury School District, PA (Aa3) benefits from a mature community outside of Philadelphia with strong resident wealth. While reserves are somewhat weaker than that of similarly rated peers, the district's financial position is stable. A key credit strength for the district is its strong management controls, long term planning, and the board's willingness to raise property taxes, which somewhat offsets a more narrow financial position. The district has seen a moderately declining enrollment trend due to demographic shifts, which was exacerbated last year by the pandemic, and is expected to persist over the long term. The district's leverage will increase to address its 10 year capital plan. Inability to maintain financial balance with the addition debt will apply negative pressure to its credit profile.

Credit strengths

- » Strong resident income and wealth
- » Stable operations with strong management

Credit challenges

- » Expected increase in leverage
- » Very narrow reserves compared to peers

Rating outlook

Moody's typically does not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material improvement in its reserve position
- » Decline in long-term liabilities

Factors that could lead to a downgrade

- » Decline in reserves
- » Material increase in long-term liabilities above current expectations
- » Contraction of the local economy and enrollment

Key indicators

Exhibit 1

Pennsbury School District, PA

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income	154.3%	156.8%	161.6%	N/A	112.2%
Full value (\$000)	\$8,039,997	\$8,179,010	\$8,451,735	\$8,469,028	\$3,864,784
Population	70,853	70,989	72,681	N/A	31,619
Full value per capita	\$113,474	\$115,215	\$116,285	N/A	\$115,171
Enrollment	9,990	9,907	9,544	9,673	4,288
Enrollment trend	-1.0%	-0.9%	-1.7%	-1.1%	0.1%
Financial performance					
Operating revenue (\$000)	\$208,130	\$213,458	\$216,964	\$227,585	\$71,385
Available fund balance (\$000)	\$17,506	\$20,052	\$22,667	\$23,508	\$18,076
Net cash (\$000)	\$38,591	\$36,295	\$39,494	\$45,542	\$21,642
Available fund balance ratio	8.4%	9.4%	10.4%	10.3%	26.8%
Net cash ratio	18.5%	17.0%	18.2%	20.0%	31.5%
Leverage					
Debt (\$000)	\$165,660	\$164,800	\$157,588	\$163,278	\$51,433
ANPL (\$000)	\$304,414	\$335,312	\$395,548	\$364,085	\$111,819
OPEB (\$000)	\$21,014	\$24,568	\$37,155	\$26,073	\$10,587
Long-term liabilities ratio	236.0%	245.8%	272.1%	243.2%	317.0%
Implied debt service (\$000)	\$12,881	\$12,078	\$11,802	\$11,053	\$3,485
Pension tread water (\$000)	\$14,987	\$14,828	\$15,473	\$12,305	\$2,924
OPEB contributions (\$000)	\$1,322	\$1,330	\$1,289	\$1,393	\$368
Fixed-costs ratio	14.0%	13.2%	13.2%	10.9%	11.5%

For definitions of the metrics in the table above please refer to the [US K-12 Public School Districts Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [K12 Median Report](#).

Sources: US Census Bureau, Pennsbury School District, PA's financial statements and Moody's Investors Service

Profile

Pennsbury School District is located in Bucks County in southeastern Pennsylvania, approximately 25 miles northeast of Philadelphia and directly across the Delaware River from Trenton, New Jersey.

Detailed credit considerations

Economy: mature community with strong resident income

Financial operations: narrow but stable reserves

The district's reserves will remain narrow but very stable in the near-term. At the end of fiscal 2022, the district's available fund balance amounted to \$23.5 million or just 10% of revenues. The district's reserve position over the past several years has been extremely stable, ranging between 8.5 and 10% of revenues. The extreme stability in operations is a testament to the district's strong management team and its ability to control operations every year.

The district is seeing solid operations again this year. Spending is in line with expectations while revenues are positive for the year. Overall, the district is expecting to see flat to a modest surplus in operations by the end of year, adding to its history of stable reserves. The fiscal 2024 budget is still in progress however management is expecting a largely similar budget and to keep reserves at current levels. Any material surplus would be moved to a capital reserve for future capital projects. The district's history of stable operations is a mitigant to its narrow reserves however any decline in fund balance and inability to control operations will apply negative pressure to the credit profile.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Liquidity

The district's liquidity is stable. At the end of fiscal 2022, its cash balance totaled \$45.5 million or 20% of revenues.

Leverage: expected material capital plans over the next ten years

The district's total long-term liabilities are expected to increase as additional debt comes on line. Including its upcoming new issuance, the district's long-term liabilities ratio will amount to approximately 260% of revenues.

Over the next ten years, the district's capital plan ranges between \$282 million and \$330 million in projects. Of that amount, the largest would be a major overhaul of its high school. This could come in the form of either a large renovation or building a completely new building. This project is a few years out however, the district is looking to address other projects in the next year or two. It is expected that the district will be issuing debt annually for several years ranging between \$15-50 million. The district forecasts not only the debt impact but the tax impact and how the fund balance will be impacted with the additional debt. In its projections in either scenario (renovate vs. rebuild) fund balance is projected to hold at current levels. In addition to its capital projects through 2031, it is looking into projects into 2041.

In total, the additional debt will worsen its total leverage metrics. While currently projects are to be manageable and in line with peers, any changes to its current plan or inability to maintain reserves will cause negative pressure in the district's credit profile.

Legal security

The bonds are general obligations of the district, backed by the district's full faith credit and taxing power. The bonds are subject to the limits of Pennsylvania's Act 1.

Debt structure

All of the district's debt is fixed rate.

Debt-related derivatives

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

Pensions and OPEB

The district's pension liabilities are expected to grow but remain manageable. The district contributes to the Public School Employee Retirement System (PSERS), a multi-employer cost-sharing plan administered by the Commonwealth of Pennsylvania. During fiscal 2022, the district contributed \$17.6 million, which was matched in full by the state's reimbursement for half the annual cost. This amount significantly surpassed Moody's estimated tread water payment, the amount the district would need to contribute in order to keep its pension liability flat (assuming the plan met its assumptions).

The district's OPEB liability is very low at just 11% of revenues. Annual expenditures have remained less than 1% of its budget for several years.

ESG considerations

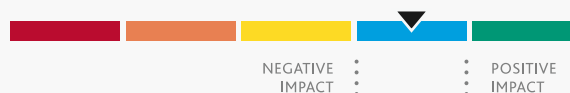
Pennsbury School District, PA's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 2

ESG Credit Impact Score

CIS-2

Neutral-to-Low



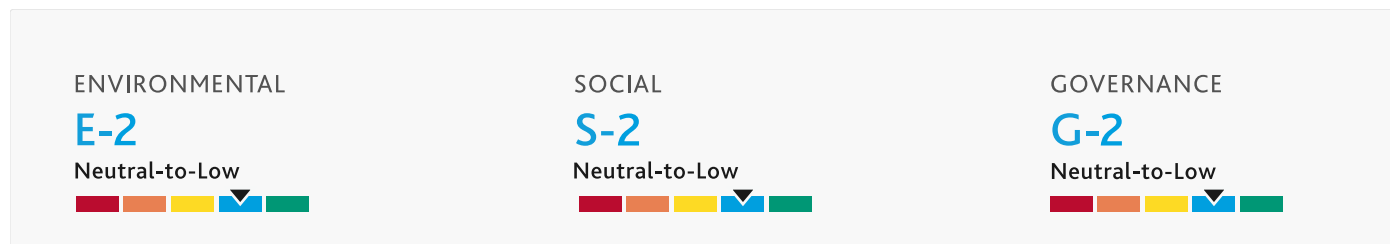
For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Pennsbury School District's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting neutral-to-low exposure to environmental, social and governance risks.

Exhibit 3

ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Pennsbury School District's E Issuer Profile Score is neutral-to-low (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate risks, carbon transition, water management, natural capital and waste and pollution.

Social

Pennsbury School District's S Issuer Profile Score is neutral-to-low (**S-2**), reflecting low exposure to social risks across most categories, including demographics, education, housing and health and safety. While population declined slightly over the last decade, the percentage of school-aged children in the district is above the median of school districts we rate. Moreover, the graduation rate is above the national average. Bucks County's housing affordability index is on par with the median of school districts that we rate nationwide. The percent of school-aged children in poverty in the district is below the national average. The district's exposure to access to basic services risk is neutral-to-low, though the percent of households in the district with a broadband internet subscription is higher than most peers.

Governance

Pennsbury School District's G Issuer Profile Score is neutral-to-low (**G-2**). The district's transparency and disclosure is in line with peers. The district has solid budget management. The district has average policy credibility and effectiveness, as its capture rate (the percentage of school-aged children within the district's boundaries who attend the district) is satisfactory when compared to other Pennsylvania school districts. The institutional structure for all Pennsylvania school districts is solid.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US K-12 Public School Districts Methodology includes a scorecard, a tool providing a composite score of a school district's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare school district credits.

Exhibit 4

Pennsbury School District, PA

	Measure	Weight	Score
Economy			
Resident Income (MHI Adjusted for RPP / US MHI)	161.6%	10.0%	Aaa
Full value per capita (full valuation of the tax base / population)	116,949	10.0%	Aa
Enrollment trend (three-year CAGR in enrollment)	-1.1%	10.0%	A
Financial performance			
Available fund balance ratio (available fund balance / operating revenue)	10.3%	20.0%	A
Net cash ratio (net cash / operating revenue)	20.0%	10.0%	Aa
Institutional framework			
Institutional Framework	A	10.0%	A
Leverage			
Long-term liabilities ratio ((debt + ANPL + adjusted net OPEB) / operating revenue)	260.2%	20.0%	A
Fixed-costs ratio (adjusted fixed costs / operating revenue)	10.9%	10.0%	Aaa
Notching factors			
Potential for significant change in leverage	-0.50		
Scorecard-Indicated Outcome			A1
Assigned Rating			Aa3

Sources: US Census Bureau, Pennsbury School District, PA's financial statements and Moody's Investors Service

Appendix

Exhibit 5

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income	Median Household Income (MHI), adjusted for Regional Price Parity (RPP), as a % of the US	MHI: American Community Survey (US Census Bureau) RPP: US Bureau of Economic Analysis
Full value (\$000)	Estimated market value of taxable property accessible to the district	State repositories, district's audited financial reports, offering documents or continuing disclosure
Population	Population of school district	American Community Survey (US Census Bureau)
Full value per capita	Full value / population of school district	
Enrollment	Student enrollment of school district	State data publications
Enrollment trend	3-year Compound Annual Growth Rate (CAGR) of Enrollment	State data publications; Moody's Investors Service
Financial performance		
Operating revenue (\$000)	Total annual operating revenue in what we consider to be the district's operating funds	Audited financial statements
Available fund balance (\$000)	Committed, assigned and unassigned fund balances in what we consider to be the district's operating funds	Audited financial statements
Net cash (\$000)	Net cash (cash and liquid investments minus short-term debt) in what we consider to be the district's operating funds	Audited financial statements
Available fund balance ratio	Available fund balance / Operating Revenue	Audited financial statements
Net cash ratio	Net Cash / Operating Revenue	Audited financial statements
Leverage		
Debt (\$000)	District's direct gross debt outstanding	Audited financial statements; official statements
ANPL (\$000)	District's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
OPEB (\$000)	District's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Long-term liabilities ratio	Debt, ANPL and OPEB liabilities as % of operating revenue	Audited financial statements, official statements; Moody's Investors Service
Implied debt service (\$000)	Annual cost to amortize district's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water (\$000)	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contributions (\$000s)	District's actual contribution in a given period, typically the fiscal year	Audited financial statements; official statements
Fixed-costs ratio	Implied debt service, pension tread water and OPEB contributions as % of operating revenue	Audited financial statements, official statements, pension system financial statements

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US K-12 Public School Districts Methodology](#).

Source: Moody's Investors Service

© 2023 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved. CREDIT RATINGS ISSUED BY MOODY'S CREDIT RATINGS AFFILIATES ARE THEIR CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MATERIALS, PRODUCTS, SERVICES AND INFORMATION PUBLISHED BY MOODY'S (COLLECTIVELY, "PUBLICATIONS") MAY INCLUDE SUCH CURRENT OPINIONS. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE APPLICABLE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S CREDIT RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS, NON-CREDIT ASSESSMENTS ("ASSESSMENTS"), AND OTHER OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. AND/OR ITS AFFILIATES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS DO NOT COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS, ASSESSMENTS AND OTHER OPINIONS AND PUBLISHES ITS PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS, AND PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS OR PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

MOODY'S CREDIT RATINGS, ASSESSMENTS, OTHER OPINIONS AND PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the credit rating process or in preparing its Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING, ASSESSMENT, OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any credit rating, agreed to pay to Moody's Investors Service, Inc. for credit ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$5,000,000. MCO and Moody's Investors Service also maintain policies and procedures to address the independence of Moody's Investors Service credit ratings and credit rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold credit ratings from Moody's Investors Service, Inc. and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Charter Documents - Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any credit rating, agreed to pay to MJKK or MSFJ (as applicable) for credit ratings opinions and services rendered by it fees ranging from JPY100,000 to approximately JPY550,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454