New Issue: Moody's assigns Aa2 to Chambersburg Area School District's (PA) $7.3M G.O. Bonds, Series of 2014

District has $142M of long term GO debt outstanding

Moody’s Rating

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<th>Sale Amount</th>
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Moody's Outlook NOO

Opinion

NEW YORK, April 09, 2014 --Moody's Investors Service has assigned an underlying Aa2 rating to the Chambersburg Area School District's (PA) $7.3 million General Obligation Bonds, Series of 2014. Concurrently, Moody's maintains the Aa2 rating on $142 million of outstanding long-term general obligation debt. The Series of 2014 bonds are secured by an unlimited general obligation tax pledge. Of the district's total outstanding general obligation debt, approximately $40 million is secured by a limited general obligation tax pledge and subject to the Special Session Act 1 property tax limitations; the balance is secured by an unlimited tax pledge. Proceeds from the current issue will refinance the district's Series 2007 bonds for an estimated net present value savings of 7.7% of refunded principal.

SUMMARY RATING RATIONALE

The Aa2 underlying rating reflects a large tax base, satisfactory financial performance with adequate reserves that are augmented by other funds, and a higher than average debt position with slow payout.

STRENGTHS

- Sizeable and stable tax base
- Strong population growth
- Reserves outside of General Fund operations

CHALLENGES

- Exposure to state aid declines
- Growing expenditure pressures related to employee pension benefits
- Higher than average debt burden with slow payout

DETAILED CREDIT DISCUSSION

ADEQUATE FINANCIAL OPERATIONS BOLSTERED BY OUTSIDE RESERVES WITH PLANNED DRAW
The district's financial operations will narrow, but remain sound due to conservative budgeting and the existence of additional reserves outside of the General Fund. Chambersburg increased its General Fund reserves to $11.9 million, or 10.8% of revenues in fiscal 2013, up from $2.8 million, or a narrow 2.9% of revenue in fiscal 2009. The district gains additional flexibility from a Capital Reserve Fund which totaled $7.4 million as of fiscal 2013 year end and is expected to decline to $4 million at the end of fiscal 2014 due to the use of funds to complete the reconstruction of an elementary school. The Capital Reserve Fund is restricted for use on projects related to capital maintenance or debt service and cannot be transferred to the General Fund for general operations. The district also maintains a self funded medical account with stop loss insurance totaling $7.3 million as of the end of fiscal 2013 and is expected to decline to $4.5 million at the end of fiscal 2014.

Fiscal 2012 ended with a $5.8 million operating surplus, of which $3.3 million was transferred to the Capital Reserve Fund. The surplus resulted from conservative budgeting of revenues and expenditure savings related to changes in the employee health care plan. Fiscal 2013 ended with an $880,000 use of reserves after the transfer of $1.7 million to the Capital Reserve Fund. The district's sources of revenue in fiscal 2013 were local taxes (66%), followed by state aid (31%) and federal aid (3.3%). The fiscal 2014 budget included a 1% millage rate increase and a $1 million general fund reserve appropriation.

Although the Capital Reserve and self funded medical reserve funds bolster the district's financial flexibility, the district has experienced significant draws on these funds to offset growing pension ARCs and to build an elementary school with limited use of debt. The maintenance of an adequate financial position will be a key rating focus during future reviews.

**LARGE TAX BASE EXPERIENCING STEADY POPULATION GROWTH**

The district's $5.6 billion tax base experienced strong growth over the last decade, although this has slowed in recent years due to the weakened real estate market. From 2000 to 2010, the district's population grew to 66,240 from 55,856, an 18.6% increase, as new residents, including those from Maryland (rated Aaa stable) and Harrisburg, PA, were reportedly attracted to the relatively affordable housing and lower property taxes. Annual growth of the district's assessed value has averaged 1.8% from 2008 through 2013. Full valuation declined at an annual average rate of 1.1% during the same period, reflecting strong market appreciation and new construction prior to the recession, followed by a cumulative 12% tax base decline from 2007 through 2010. Both commercial and residential development are expected to continue as land in this traditionally agricultural district remains abundant. Located in Franklin County, close to the Maryland border, the district benefits from its location along the Interstate-81 corridor, a major thoroughfare that continues to spur commercial and light industrial development. Tax collections are satisfactory, exceeding 97%, while the district continues to budget for a more conservative 95%. The county's unemployment rate remained a low 6.0% as of January 2014. Wealth and income levels approximate national medians (98%) and full value per capita is $84,600.

The district's largest taxpayer, Menno-Haven, a nursing home/retirement community, continues to appeal its assessed valuation (starting in 1998), requesting full exemption from real estate taxes. The nursing home/retirement community comprises 1.2% of the total base, providing $500,000 in annual property tax revenue. To date, the district has successfully opposed efforts through the court to obtain a full exemption. Should the nursing home prevail in obtaining full or partial tax exemption in future years, the associated loss of revenue could impact the district's credit quality.

**MANAGEABLE DEBT POSITION WITH SLOW PAYOUT**

The district's direct debt burden at 2.5% of full value will remain manageable, given an absence of future debt plans. The district's overall debt burden, inclusive of overlapping Franklin County debt, is average at 3.4% of full value and remains an average 3.2% after adjusting for school building aid. Amortization of principal is slow, with 36.0% retired within 10 years, as a result of the district's recent borrowings to finance long life assets including three elementary schools and a high school. Debt service made up an average 9.4% of expenditures in fiscal 2013 and is not expected to increase substantially given the structure of debt amortization. All outstanding debt is fixed rate and the district is not party to any interest rate swaps.

The district participates in the Pennsylvania State School Employees defined benefit Pension Plan and are required to make their Actuarial Required Contribution, which is $4.1 million in fiscal 2013, 50% of which is reimbursed by the state. The district's combined adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is $71.2 million, a less than average 0.66 times General Fund revenues. Moody's uses the adjusted net pension liability 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. We determined the district's share of liability for the state-run plans in proportion to its contributions to the plans.

WHAT COULD MAKE THE RATING GO UP

- Considerable tax base growth
- Continued growth in General Fund reserve levels

WHAT COULD MAKE THE RATING GO DOWN

- Draw downs on financial reserves below adequate levels
- Sustained increases in debt levels
- Significant reductions in state aid outside of current projections

KEY STATISTICS

Full Value, Fiscal 2014: $5.6 billion
Full Value Per Capita, Fiscal 2014: $84,600
Median Family Income as % of US Median (2012 American Community Survey): 94.6%
Fund Balance as % of Revenues, Fiscal 2013: 10.8%
5-Year Dollar Change in Fund Balance as % of Revenues: 14.6%
Cash Balance as % of Revenues, Fiscal 2013: 12.7%
5-Year Dollar Change in Cash Balance as % of Revenues: 16.7%
Institutional Framework: "A"
5-Year Average Operating Revenues / Operating Expenditures: 1.02x
Net Direct Debt as % of Full Value: 2.5%
Net Direct Debt / Operating Revenues: 1.29x
3-Year Average ANPL as % of Assessed Value: 1.3%
3-Year Average ANPL / Operating Revenues: 0.66x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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