Moody's Investors Service


Global Credit Research - 29 Apr 2015

Maintains Aa2 and negative outlook on $131.4M parity debt

New York, April 29, 2015 --

Moody's Rating

Issue: General Obligation Bonds, Series A of 2015; Underlying Rating: Aa2; Enhanced Rating: A2; Sale Amount: $42,020,000; Expected Sale Date: 05/13/2015; Rating Description: General Obligation Limited Tax

Issue: General Obligation Bonds, Series AA of 2015; Underlying Rating: Aa2; Enhanced Rating: A2; Sale Amount: $11,100,000; Expected Sale Date: 05/13/2015; Rating Description: General Obligation Limited Tax

Opinion

Moody's Investors Service has assigned Aa2 underlying and A2 enhanced ratings to Chambersburg Area School District, PA's $53.1 million General Obligation Bonds, Series A and AA of 2015. The outlook remains negative.

SUMMARY RATING RATIONALE

The Aa2 underlying rating incorporates the district's large tax base, adequate reserves that are augmented by other funds, and a higher than average debt position with slow payout.

The A2 enhanced rating is based on the Pennsylvania Act 150 School District Intercept program, a post-default program authorized under Sections 633 of the Public School Code of 1949. In the case of nonpayment of debt service by a school district, the Secretary of Education is authorized to directly remit appropriated state aid to bondholders until the deficiency is cured. Payments can be accelerated within the current fiscal year and all forms of state aid are interceptable.

OUTLOOK

The negative outlook factors the district's recent narrowing of available reserves and liquidity. The outlook also considers the district's limited revenue raising ability and increasing fixed costs such as employee pensions and benefits, which will remain a challenge as the district works to restore structural balance and improve reserves and liquidity.

WHAT COULD MAKE THE RATING GO UP (removal of the negative outlook)

-Considerable tax base expansion and improvement of the district's demographic profile
-Continued growth in General Fund reserve levels

WHAT COULD MAKE THE RATING GO DOWN

-Structurally balanced operations, resulting in narrowing of available reserves and liquidity
-Increased debt burden

OBLIGOR PROFILE

The district is located in northeastern Franklin County and is composed of the Borough of Chambersburg (Aa3) and the Townships of Greene, Hamilton, Letterkenny, and Lurgan. The K-12 district operates thirteen elementary schools, two middle schools, one high school, and a Career Magnet School.

LEGAL SECURITY
The Series A and Series AA of 2015 bonds are secured by the district's general obligation pledge as limited by Special Session Act 1, which restricts the school district's ability to increase property tax millage beyond an annual index without seeking specific exemptions or voter approval.

USE OF PROCEEDS

Proceeds of the Series A of 2015 bonds refund a portion of the district's outstanding Series A of 2005, Series of 2007, and Series A of 2010 bonds for an estimated net present value savings of $3.6 million, or 8.4% of refunded principal, with no extension to maturity.

Proceeds of the Series AA of 2015 bonds will finance a new elementary school and other district-wide capital projects.

RATING METHODOLOGY

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

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