

ISSUER COMMENT

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RATING

General Obligation (or GO Related)¹

Aaa Stable

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Tredyffrin-Easttown School District, PA

Annual Comment on Tredyffrin-Easttown SD

Issuer Profile

Tredyffrin-Easttown School District is located in Chester County in southeastern Pennsylvania, approximately 18 miles northwest of downtown Philadelphia. The district encompasses the townships of Tredyffrin and Easttown. Chester County has a population of 512,784 and a population density of 683 people per square mile. The county's per capita personal income is \$71,971 (1st quartile) and the November 2015 unemployment rate was 3.2% (1st quartile).² Health services, retail trade, and finance/insurance are key drivers of the local economy. The Vanguard Group financial services, QVC Incorporated headquarters and television studios, and county government rank as leading employers in the area.

Credit Overview

Tredyffrin-Easttown SD has an extremely strong credit position, and its Aaa rating far surpasses the median rating of Aa3 for US school districts. Notable credit factors include a large tax base with a superior socioeconomic profile, and a very healthy financial position. It also reflects a negligible debt burden with a mid-ranged pension liability.

Economy and Tax Base: The economy and tax base of the district are exceptionally strong and are comparable to the assigned rating of Aaa. Tredyffrin-Easttown SD's total full value (\$8.8 billion) is materially above the US median and increased from 2012 to 2015. Also, the full value per capita (\$220,468) is much stronger than the US median. Lastly, the median family income is a robust 221.4% of the US level.

Finances: The financial position of the district is very healthy and is in line with its Aaa rating. The fund balance as a percent of operating revenues (27.4%) is slightly higher than the US median. The cash balance as a percent of revenues (28.0%) fell materially between 2012 and 2015 and is roughly equivalent to other Moody's-rated school districts nationwide.

Debt and Pensions: The debt and pension burdens of Tredyffrin-Easttown SD are low though they are somewhat unfavorable when compared to the very strong assigned rating of Aaa. The net direct debt to full value (0.7%) is materially below the US median. The Moody's-adjusted net pension liability to operating revenues (1.4x) rose modestly from 2012 to 2015 and is slightly under the US median.

Management and Governance: The ability to generate positive operating margins is a component of strong financial management. Advantageously, on average over the past few years, Tredyffrin-Easttown SD ran surpluses as the tax base generally increased.

Pennsylvania school districts have an institutional framework score ³ of "Baa," or weak. Revenues primarily consist of local property taxes, income taxes, and state aid. Revenue

predictability is low as state aid can fluctuate annually based on state budget appropriations. Districts have a moderate ability to raise revenues as they are subject to the Act 1 cap, which requires voter approval for property tax increases above an Act 1 index, driven by the CPI. Expenditures primarily consist of instructional expenses, which are moderately predictable. Districts maintain a moderate ability to cut costs based on union contract negotiations and rising pension costs.

Sector Trends - Pennsylvania School Districts

Districts are grappling with increased pension contributions, a backlog of state reimbursement, charter school competition, and an unwillingness or inability to raise property taxes. While fixed costs continue rising, the Act 1 cap and low tax base growth are limiting property tax revenue growth. However, Act 32 has produced higher income tax revenue. Charter schools are a threat for urban, and even a few suburban, districts. Pre- and post-default state aid intercept programs exist in the event a school district cannot pay debt service. Many districts have aggressive debt structures with swaps and variable rate debt.

Exhibit 1

Key Indicators^{4 5}

Tredyffrin-Easttown SD, PA

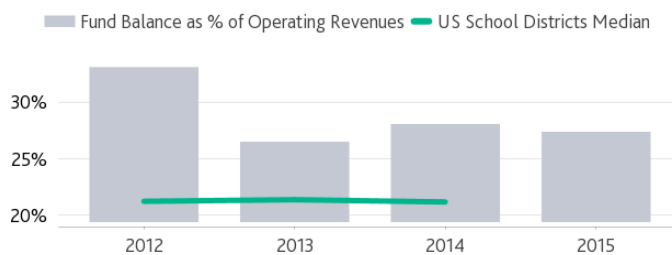
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$8,243M	\$8,069M	\$8,371M	\$8,807M	\$1,872M	Improved
Full Value Per Capita	\$206,276	\$202,005	\$209,576	\$220,468	\$80,896	Improved
Median Family Income (% of US Median)	221.4%	221.4%	221.4%	221.4%	103.1%	Stable
Finances						
Fund Balance as % of Operating Revenues	33.1%	26.5%	28.1%	27.4%	21.1%	Weakened
Cash Balance as % of Operating Revenues	41.3%	29.2%	30.5%	28.0%	25.1%	Weakened
Debt / Pensions						
Net Direct Debt / Full Value	0.66%	0.63%	0.56%	0.73%	1.5%	Stable
Net Direct Debt / Operating Revenues	0.52x	0.46x	0.41x	0.54x	0.75x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.1%	1.5%	1.7%	1.8%	3.1%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.89x	1.09x	1.26x	1.35x	1.58x	Stable

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues decreased between 2012 and 2015

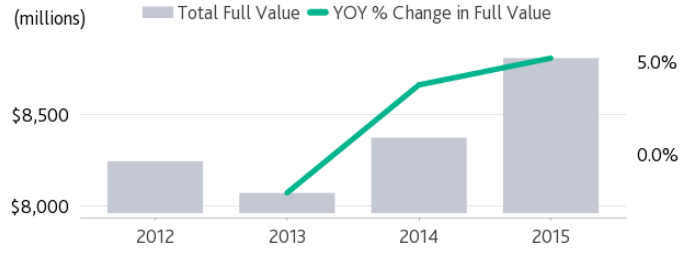
Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

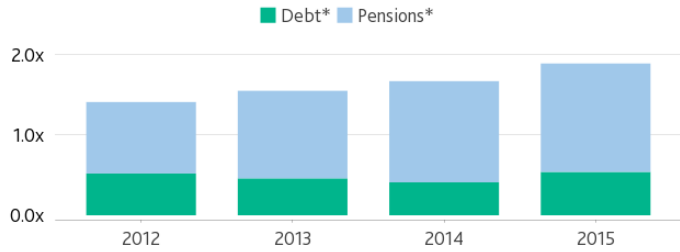
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 3
Total full value grew from 2012 to 2015
 Total Full Value



Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4
Moody's-adjusted net pension liability to operating revenues increased from 2012 to 2015
 Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.
 Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.8 % for November 2015.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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