

# RatingsDirect®

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## Summary:

# Elizabeth, Pennsylvania; General Obligation

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### Credit Profile

US\$1.95 mil GO bonds ser 2017 due 12/01/2032

*Long Term Rating*

A+/Stable

New

Elizabeth Twp GO (AGM)

*Unenhanced Rating*

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Elizabeth Township, Pa.'s series 2017 general obligation (GO) bonds. At the same time, we affirmed our 'A+' underlying rating (SPUR) on the township's existing debt. The outlook on all the rating is stable.

The township's full-faith-and-credit pledge secures the series 2017 and existing GO bonds. We understand officials intend to use series 2017 bond proceeds to refund the township's outstanding series 2011 GO bonds.

The ratings reflect our opinion of the township's

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2016, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 40% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.8% of total governmental fund expenditures and 8.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 4.8% of expenditures and net direct debt that is 77.4% of total governmental fund revenue; and
- Strong institutional framework score.

### Adequate economy

We consider Elizabeth's economy adequate. The township, with an estimated population of 13,183, largely residential and encompasses a 23-square-mile section of southeastern Allegheny County, less than 20 miles south of the Pittsburgh MSA, which we consider to be broad and diverse. Major employers in the township include Elizabeth Forward School District (297 employees), Basic Carbide Corp. (manufacturing; 150), and Advanced Metallurgy Inc. (manufacturing; 120). The county unemployment rate was 5.2% in 2016.

The township has a projected per capita effective buying income of 114% of the national level and per capita market value of \$43,511. Overall, market value grew by 3.3% over the past year to \$573.6 million in 2016. We expect that the

township's economy is likely to remain adequate given its stable trends and the absence of significant developments.

### **Adequate management**

We view the township's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

We understand elected officials receive monthly budget updates but no reporting on the township's investments. The annual budget uses trend analysis. The township does not have a long-term financial plan, capital improvement plan, formal debt policy, or reserve policy.

### **Adequate budgetary performance**

Elizabeth's budgetary performance is adequate, in our opinion. The township had operating deficits of negative 3.7% of expenditures in the general fund and negative 4.8% across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could improve from 2016 results in the near term.

It should be noted that we have made a number of adjustments to the township's financial data to better analyze its typical operations. We have made adjustments for recurring transfers from other governmental funds into the general fund for reimbursements. Additionally, the township had received certain one-time revenues and made one-time capital expenditures which we've also adjusted.

Prior to fiscal 2016 (draft audit), net of adjustments, the township operated with stable financial operations and yielded near break-even or operating surpluses. However, while operating results have been stable, this has equated to an adequate budgetary performance. The operating deficit in the general fund and across the governmental funds is due to intergovernmental revenues coming in lower than budgeted. Though the audit reflects an operating surplus, it includes nonrecurring revenues, such as capital lease, refund of prior-year expenditure, and sale of capital assets, which we did not consider. Nonetheless, we believe that based on the township's current projections for fiscal 2017, which management indicates could end with positive results, that its performance is likely to be more in line with prior years. It is also our view that given its current trends, that budgetary performance is likely to remain adequate.

The fiscal 2017 general fund budget totals \$6.0 million and estimates an operating surplus of \$161,000, or 2.7% of budgeted expenditures. Real estate taxes are the township's major source of revenues, accounting for about 40% of 2017 revenues, and have remained stable and supported by a history of strong total collections. Earned income taxes accounts for about 23% and also has been holding steady.

### **Very strong budgetary flexibility**

Elizabeth's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 40% of operating expenditures, or \$2.2 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

After the sale of a commercial property in 2012, the township was able to bolster its available fund balance to over \$1 million from a thin \$197,000 in the prior year. Since that time, it has been consistently growing its reserves, which have averaged about \$2 million and over 30% of expenditures over the past four years. We expect that the township's budgetary flexibility is likely to remain strong as management does not plan on spending it down.

In fiscal 2015, the township changed its financial report to conform to generally accepted accounting principles (GAAP) from cash basis of accounting. We believe that this provides more clarity about the amount of funds that are truly available.

Starting in fiscal 2015, the township committed \$1.2 million of its general fund balance for capital projects. According to management, these funds can still be used for general operations and are not earmarked for any capital projects. Therefore, we have considered them available. However, should the township use them, its available reserves could be weakened significantly. Net of the committed fund balance, available reserves would be \$936,000, or 18% of expenditures in 2016.

### **Very strong liquidity**

In our opinion, Elizabeth's liquidity is very strong, with total government available cash at 38.8% of total governmental fund expenditures and 8.0x governmental debt service in 2016. In our view, the township has strong access to external liquidity if necessary.

We believe the township's strong access to external liquidity is supported by debt issuances, including GO bonds, within the past 20 years. Though the state allows for what we view as permissive investments, we believe the township does not currently have aggressive ones, with the majority in demand deposits. We have adjusted the township's cash to net cash that is restricted for various purposes. The township's liquidity has improved significantly over the past years and we expect that it will remain very strong.

Given the township's improved cash position, it has not done any cash flow borrowings since 2014 and does not expect to in the near term.

### **Adequate debt and contingent liability profile**

In our view, Elizabeth's debt and contingent liability profile is adequate. Total governmental fund debt service is 4.8% of total governmental fund expenditures, and net direct debt is 77.4% of total governmental fund revenue.

At this time the city does not have any additional debt plans, so its debt burden should not exert any budgetary pressures.

We are aware that in 2013, the township dissolved the Elizabeth Township Sanitary Authority. In doing so, it assumed all the authority's assets and liabilities, including its debt obligation. Most recently, the township also dissolved the authority's board. We understand that the township has not pledged its credit or taxing power nor is it guaranteeing any debt service payments. To date, according to management, it has not had to make any debt service payments for the authority's bonds. However, while this has not yet occurred, we believe that this could result in a contingent liability risk to the township and significantly weaken its financial position.

Elizabeth's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 1.9% of total governmental fund expenditures in 2015. Of that amount, 0.6% represented required contributions to pension obligations, and 1.3% represented OPEB payments. The township made 174% of its annual required pension contribution in 2015.

The township provides pension benefits for its employees through three fully funded single-employer defined-benefit

pension plans by the Municipal Pension Plan Funding Standard Recovery Act (Act 205 of 1984): the nonuniformed, police, and sanitary authority. Based on Governmental Accounting Standards Board Statement No. 68 the plans are funded at 94.0%, 100.9%, and 107.4%, respectively.

The township has historically contributed 100% of the minimum municipal obligation (MMO) but in the past two years has made contributions in excess of the MMO.

The city continues to fund OPEBs through pay-as-you-go financing. As of Jan. 1, 2015, the unfunded liability totaled \$2.2 million.

### **Strong institutional framework**

The institutional framework score for Pennsylvania nonhome-rule cities and all boroughs and townships is strong.

## **Outlook**

The stable outlook reflects our opinion of the township's ability to continue to grow its reserves that will ultimately result in the maintenance of its very strong budgetary flexibility and continue to support the rating. Also, in our opinion, we believe that the outlook also reflects the strength of the township's liquidity. In addition, we believe that Elizabeth's access to the broad and diverse Pittsburgh MSA will continue to provide credit support. As such, we do not expect to change the rating within the two-year outlook period.

### **Upside scenario**

We could raise the rating if the township's budgetary performance improves to strong, barring any deterioration in any other credit factors. We could also do so if the township strengthened its financial management practices and policies and its economic metrics improve and are commensurate with those of higher rated peers.

### **Downside scenario**

Should the township experience any unforeseen events that result in significant deterioration of its budgetary performance, budgetary flexibility, or liquidity, we could lower the rating.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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