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Summary:

South Fayette Township, Pennsylvania; General Obligation

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Credit Profile		
US$6.705 mil GO bnds ser 2016 due 06/01/2030		
Long Term Rating	AA/Stable	New
South Fayette Twp GO		
Long Term Rating	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its rating on South Fayette Township, Pa.'s general obligation (GO) debt to 'AA' from 'AA-'. We also assigned our 'AA' rating to the township's series of 2016 GO bonds. The outlook is stable.

We based the upgrade on the ongoing strengthening of the tax base, property wealth, and incomes in the township, in addition to the maintenance of at least strong budgetary performance supporting a history of sustained very strong flexibility and liquidity.

The township's full faith and credit pledge secures the bonds. It intends to use bond proceeds to finance capital projects, as well as to currently refund its 2009 bonds for present value savings. There will be no extension of maturity.

In our view, the ratings reflect our assessment of the following factors for the township, including its:

- Strong 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;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 at 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 53.8% of total governmental fund expenditures and 9.7x governmental debt service, as well as access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 5.6% of expenditures and net direct debt at 61.3% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider South Fayette's economy strong. The township, with an estimated population of 15,402, is a suburban community about 17 miles from downtown Pittsburgh in Allegheny County. It is in the Pittsburgh MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 144% of the national level and per capita market value of $70,308. Overall, market value was stable over the past year at $1.1 billion in 2015. The county unemployment rate was 4.8% in 2015.

Although it is mostly residential, the township also has a large commercial component. Besides commuting to jobs in and around the deep and diverse Pittsburgh MSA, residents have access to jobs among the townships largest employers: Randstad Employment Solutions (236 employees), Cintas Corp. (187), Country Meadows (184), South Fayette School District (182), and County Meadows Assn. (180).

According to management, the township underwent a revaluation in fiscal 2013, resulting in a 15.2% increase in total taxable value over 2012. Management indicates there are no significant tax appeals outstanding. Officials indicate the township's location on Route 79, providing the township with good access to Pittsburgh, has generated strong residential growth as South Fayette typically sees over 100 new residential units per year. The township is expecting further growth with the addition of a new expressway that will connect the township directly to the Pittsburgh airport that is expected to be completed by 2020. The township is about 60% undeveloped and given new residential and mixed commercial development slated to be added to the tax rolls over the next few years, we expect the tax base to continue to see strong growth. Additionally, a new cracker plant related to the Marcellus Shale expansion is slated to be constructed nearby, which is expected to have regional effects and is projected to increase ancillary business activity.

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.

The township typically budgets local revenues conservatively and performs five years of historical data when drafting the budget. We view budget monitoring sound as budget-to-actuals are reported to the board monthly. Budget amendments can be made but are rare. The township does not currently perform any long-term revenue and expenditure forecasting or capital planning that is consistent with our criteria, but has indicated it might start doing so in the near future. It has an investment policy but does not perform regular investment performance reporting to the board. The debt management policy follows state guidelines and limits debt service to 10% of the budget. South Fayette's reserve policy outlines a floor of 10% of expenditures to maintain reserves adequate to make yearly transfers for capital.

Strong budgetary performance

South Fayette's budgetary performance is strong, in our opinion. It had operating surpluses at 5.9% of expenditures in the general fund and 11.9% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

The township achieved four operating surpluses in the last five audited years. South Fayette built on fund balance by about $558,000 in fiscal 2015 after accounting for recurring transfers out of the general fund for capital. Management attributes its positive results in 2015 to real estate and Act 511 taxes coming in better than budgeted, as well as to savings in health insurance and to the delay of new hires. We note the township adopts a balanced budget each year and does not appropriate reserves to balance it. Local taxes contributed about 87.3% of 2015 revenue. Tax collections are strong and stable, averaging 100% over fiscal years 2011-2014.

With a few months remaining in fiscal 2016, the township is expecting another surplus of a few hundred thousand dollars as local property taxes are outperforming the budget again. The 2017 budget will be balanced and does not currently propose a tax increase. However, like past budgets that were balanced, we expect local revenues to outperform the budget, contributing to the strengthening of reserves. Given the township's strong and stable tax collection, in addition to its track record of conservative budgeting contributing to four surpluses in the last five years, we expect for general fund and governmental fund performance to remain at least strong from now on.

Very strong budgetary flexibility

South Fayette's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 at 21% of operating expenditures, or $2 million.

Available reserves have been very strong over the last three years, ranging between 15.7% and 24.4% of expenditures, with no plans to spend them down. The township also maintains a reserve policy that outlines an available fund balance floor at 10% of expenditures, to which it is adhering. It has raised taxes once in the past few years. In 2016, it raised millage from 3.48 to 4.48 to finance local paving projects.

We believe that fund balance levels will remain very strong, with another surplus projected for fiscal 2016, in addition to management's track record of conservative budgeting, which is consistent with our view of the township's strong budgetary performance.

Very strong liquidity

In our opinion, South Fayette's liquidity is very strong, with total government available cash at 53.8% of total governmental fund expenditures and 9.7x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

Further supporting our view of the township's very strong liquidity is its strong access to external liquidity supported by debt issuances (including GO bonds) within the past 15 years. Although the state allows for what we view as permissive investments, we believe the township does not currently have aggressive ones, with the majority in bank deposits and money markets. In addition, the township has no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. South Fayette Township has consistently had very strong liquidity and we do not expect a change in its ratios, consistent with our view of its strong budgetary performance.

Adequate debt and contingent liability profile

In our view, South Fayette's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.6% of total governmental fund expenditures, and net direct debt is 61.3% of total governmental fund revenue.

South Fayette currently only has its 2009 bonds outstanding, which it is refunding with the 2016 bonds for present value savings to be taken at the back end of the amortization schedule to move the final maturity year from 2034 to 2030. It has no additional debt plans over the next two to three years.

South Fayette's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.4% of total governmental fund expenditures in 2015. It made 120% of its annual required pension contribution in 2015.

The township maintains one single-employer defined-benefit pension plan for the police and meets its required pension requirements annually. We view the plan as below adequately funded at 77.93%, based on Governmental Accounting Standards Board Statement No. 68.The township also offers a defined-contribution plan for non-union employees. It offers OPEBs in the form of medical, dental, and vision insurance for eligible retirees. It paid $38,263 of its $46,220 annual required contribution in 2015. As of Jan. 1, 2015, the unfunded liability totaled $346,444. We believe that retirement costs do not currently have a material effect on finances or operations and that they will likely remain manageable in the next three-to-four years.

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 view of management's conservative budgeting practices that have supported strong budgetary performance, contributing to very strong general fund flexibility and liquidity historically. We believe that the township's participation in the broad and diverse Pittsburgh MSA economy will also continue to support the rating. We therefore do not expect to change the rating within the two-year outlook horizon.

Upside scenario

Should economic metrics continue to strengthen to levels in line with a higher rating and budgetary performance remain strong, increasing reserves to those in line with higher rated peers while the township also adopts more robust financial management practices and policies, then we could raise the rating.

Downside scenario

We could lower the rating should budgetary pressures arise that result in weakened liquidity and flexibility to levels in line with peers at a lower 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.