S&P Global Ratings

RatingsDirect®

Summary:

West Manheim Township, Pennsylvania; General Obligation

Primary Credit Analyst:
Erich L Schmitz, Chicago (1) 312-233-7076; Erich.Schmitz@spglobal.com

Secondary Contact:
Moreen T Skyers-Gibbs, New York (1) 212-438-1734; moreen.skyers-gibbs@spglobal.com

Table Of Contents

Summary:

West Manheim Township, Pennsylvania; General Obligation

Credit Profile		
West Manheim Twp GO bnds		
Long Term Rating	A+/Stable	Upgraded
West Manheim Twp GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) on West Manheim Township, Pa.'s general obligation (GO) debt one notch to 'A+' from 'A'. The outlook is stable.

The rating action reflects our opinion of West Manheim's improved financial performance during the past two fiscal years that has resulted in strong budgetary flexibility and very strong liquidity. New management came in during fiscal 2015 with a focus on fiscal conservativism. Through debt refinancing, millage increases, and careful spending, management has brought about strong financial performance and substantially higher reserves. While an extensive history of stable budgetary performance has yet to be established, management has enacted new practices, including financial forecasting and capital planning, we believe will likely assist with greater budgetary transparency. A very weak debt profile due primarily to high net direct debt and elevated fixed costs when considering debt-service and pension contributions will continue to pressure the township in the long term.

The township's full-faith-and-credit-GO pledge secures the bonds.

The rating reflects our opinion of the township's:

- Adequate economy, with market value per capita of $75,304 and projected per capita effective buying income at 111% of the national level;
- 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 2017;
- Strong budgetary flexibility, with available reserves in fiscal 2017 of 35% of operating expenditures;
- Very strong liquidity, with total government available cash at 66.8% of total governmental-fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt-and-contingent-liability position, with debt service carrying charges at 12.9% of expenditures and net direct debt that is 187% of total governmental-fund revenue, but rapid amortization, with 67.5% of debt

scheduled to be retired within 10 years; and

- Strong institutional framework score.

Adequate economy

We consider West Manheim's economy adequate. The township, with an estimated population of 8,465, is approximately 18 miles southwest of York and 95 miles west of Philadelphia in southwest York County, along the Pennsylvania and Maryland border. Residents of the 20-square-mile township have employment opportunities in the York-Hanover metropolitan statistical area, which we do not consider broad and diverse. Leading area employers include York Hospital, the federal government, the county, and Wal-Mart Stores Inc.

The township has a projected per capita effective buying income of 111% of the national level and per capita market value of $75,304. Overall, market value decreased by 7.9% during the past year to $637.5 million in fiscal 2017. The county unemployment rate was 4.4% in 2017.

Assessed value (AV) has increased by about 1%-2% annually for the past few fiscal years. Management notes a 300-plus-unit townhome development is currently underway, and the possibility exists for another 300-unit home development. Moreover, a planned university medical center could spur additional business and residential development nearby. Based on expected development and historical trends, we expect AV will likely continue to grow at a similar rate for the next two fiscal years.

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.

Highlights include management's:

- Three-year look-back at historical revenue and expenditures when formulating the current budget year;
- Monthly reports on budget-to-actual results to the township board;
- Five-year forecast of financial and capital project plans it updates annually and shares with the board;
- Use of commonwealth guidelines for investments with monthly treasurer's reports to the board; and
- Informal reserve target of maintaining two quarters (fiscal quarters one and four) of expenditures for cash flow, which the county is not conforming to currently despite substantial fund balance increases.

The township does not maintain a formal debt-management policy.

Strong budgetary performance

West Manheim's budgetary performance is strong, in our opinion. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2017 results during the next few fiscal years, but budgetary performance has significantly improved during the past two fiscal years. New management came in during fiscal 2015 and restructured cash flow, increased revenue through additional millage, and refinanced debt. We recognize results have been positive; however, if performance were to regress to old trends, we could lower the rating.

The township had operating surpluses of 21% of expenditures in the general fund and 22.7% of expenditures across all governmental funds at fiscal year-end Dec. 31, 2017. General fund revenue improved by approximately $800,000 during fiscal 2017 due primarily to an increase to 4.5 mills from 3.5 mills. Series 2016 bond proceeds refinanced series 2010 bonds, which provided additional savings through an extended maturity and reduced debt service. Fixed costs, mainly pension and debt-service contributions, were 23.5% of total governmental-fund expenditures. We consider these costs elevated because they will likely be an ongoing fiscal pressure. Management notes fiscal 2017 was the first year it did not need to borrow with tax anticipation notes, citing improved reserves.

For fiscal 2018, officials adopted a balanced budget at $4.582 million. With fiscal year-end 2018 near, management notes finances are trending close to the budget. Management expects to transfer $200,000 into reserves.

Officials have balanced the proposed fiscal 2019 budget at $4.917 million, including a $97,000 transfer into reserves and a $397,000 transfer into the capital fund. The budget includes capital needs, which is also reflected in the five-year rolling capital improvement plan.

Due to expected and budgeted year-end results and fixed-cost pressure, we think budgetary performance will likely remain, at least, strong during the next two fiscal years. Moreover, we expect the new management team will likely continue to make budgetary adjustments to maintain performance.

Strong budgetary flexibility

West Manheim's budgetary flexibility is strong, in our view, with available reserves in fiscal 2017 of 35% of operating expenditures, or $1.4 million. In our view, West Manheim's use of cash accounting, which reduces the clarity about the amount of funds truly available, negatively affects budgetary flexibility.

In fiscal 2015, available fund balance was nominal at a negative 1% of expenditures; it has improved dramatically since then. We attribute strengthened budgetary performance to improved reserves. While we expect reserves to continue to grow for, at least, the next two fiscal years based on budgeted year-end results, management notes it could fund a possible public-works building with reserves; it, however, expects reimbursement through the sale of property, resulting in no net gain or loss. Therefore, we expect reserves will likely remain strong during, at least, the next two fiscal years.

Very strong liquidity

In our opinion, West Manheim's liquidity is very strong, with total government available cash at 66.8% of total governmental-fund expenditures and 5.2x governmental debt service in fiscal 2017. In our liquidity assessment, we have adjusted for restricted cash earmarked for liquid fuel.

We believe West Manheim's record of issuing debt during the past 10 years provides it with strong access to external liquidity. It does not have any variable-interest-rate debt. We understand the township does not have any direct-purchase or privately placed obligations that could create contingent-liquidity risk. West Manheim complies with commonwealth investment guidelines. Therefore, we expect liquidity will likely remain very strong during, at least, the next two fiscal years.

Very weak debt-and-contingent-liability profile

In our view, West Manheim's debt-and-contingent-liability profile is very weak. Total governmental-fund debt service is 12.9% of total governmental-fund expenditures, and net direct debt is 187% of total governmental-fund revenue.

Approximately 67.5% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. We understand officials do not currently have any debt plans for, at least, the next two years.

In our opinion, West Manheim's large pension obligation is a credit weakness. West Manheim's pension contributions totaled 10.7% of total governmental-fund expenditures in fiscal 2017, which we consider elevated.

West Manheim maintains two single-employer, defined-benefit pension plans: a police and nonuniformed employees' plan. In fiscal 2017, it met the minimum municipal obligation contribution for the plans. The police plan's, the larger of the two plans, unfunded actuarially accrued liability was $1.012 million with 76% funded at Jan. 1, 2017. The nonuniformed employees' plan's unfunded actuarially accrued liability was $850,804 with 68% funded at Jan. 1, 2017. We consider funding ratios slightly weak. The township contributed $462,000 to pension plans in fiscal 2017, or 10.7% of total governmental expenditures, which we consider elevated. When combined with debt-service costs, carrying charges were 23.5% of expenditures, which we consider elevated. We expect elevated fixed costs to remain a pressure on the township's debt profile and finances for the long term.

The township does not provide other postemployment benefits (OPEB).

Strong institutional framework

The institutional framework score for non-home rule Pennsylvania municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the township's very strong liquidity, strong budgetary performance and flexibility, adequate economy, and very weak debt. It also reflects our expectation management will likely continue to make budgetary adjustments to maintain performance and reserves while confronted with elevated fixed costs and capital needs. Therefore, we do not expect to change the rating again during the two-year outlook period.

Downside scenario

If finances were to deteriorate, leading to substantially decreased reserves or liquidity, we could lower the rating.

Upside scenario

With all other factors holding steady, if debt were to decrease, management were to formalize more policies, and economic indicators were to improve, we could raise the rating further.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor’s Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor’s Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an “as is” basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT’S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P’s opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR’S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor’s Financial Services LLC.