



## CREDIT OPINION

21 August 2017

### New Issue

#### Rate this Research

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## Cranberry Township, PA

New Issue - Moody's Assigns a Aaa Rating to Cranberry Township's (PA) \$10 Million GO Series A&B of 2017

### Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Cranberry Township, PA's \$8 million General Obligation Bonds, Series A of 2017 and \$2 million General Obligation Bonds, Series B of 2017. Concurrently, Moody's has upgraded its rating to Aaa from Aa1 on approximately \$73 million of bond debt outstanding. The outlook is stable.

The Aaa rating reflects the township's growing, diverse tax base, well managed and robust financial position with healthy reserves, and modest debt burden.

### Credit Strengths

- » Considerable tax base growth over the last decade with continued residential and commercial additions expected
- » Healthy, consistent general fund and capital reserve levels
- » Modest fixed costs allow for ample budget flexibility

### Credit Challenges

- » Debt burden somewhat elevated versus peers with inclusion of sewer-backed debt

### Rating Outlook

The outlook is stable, reflecting our expectation of sustained strong financial performance, further growth in assessed value, and continued stability of wealth levels in the tax base.

### Factors that Could Lead to an Upgrade

- » Not Applicable

### Factors that Could Lead to a Downgrade

- » Significant fund balance draws
- » Inability to maintain structurally balanced operations
- » Substantial tax base declines or deterioration of wealth levels
- » Material increase in indebtedness

## Key Indicators

Exhibit 1

Cranberry (Township of) PA	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 2,446,041	\$ 2,554,628	\$ 2,640,877	\$ 2,915,102	\$ 2,992,494
Full Value Per Capita	\$ 86,939	\$ 89,423	\$ 90,993	\$ 98,961	\$ 97,352
Median Family Income (% of US Median)	168.0%	175.8%	178.9%	182.1%	182.1%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 18,125	\$ 19,288	\$ 19,798	\$ 19,849	\$ 21,073
Fund Balance as a % of Revenues	43.9%	53.7%	63.6%	62.2%	53.3%
Cash Balance as a % of Revenues	42.6%	49.6%	59.6%	60.3%	51.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 54,959	\$ 50,494	\$ 28,730	\$ 27,218	\$ 73,711
Net Direct Debt / Operating Revenues (x)	3.0x	2.6x	1.5x	1.4x	3.5x
Net Direct Debt / Full Value (%)	2.2%	2.0%	1.1%	0.9%	2.5%
Moody's- adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.3x	0.3x	0.4x	0.4x
Moody's- adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.2%	0.2%	0.3%	0.3%

Source: Moody's Investors Service and Cranberry Township audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Growing Tax Base with Healthy Wealth Levels

Cranberry is a commutable suburb of Pittsburgh (A1 stable), about 25 miles north of the city. Assessed value has seen steady increases over the past decade, and is up 10% since 2010; this is considerable growth for a Pennsylvania city, as many, particularly in the western part of the state, have seen quite stagnant tax bases over the same period. Assessed value was resilient through the recession, actually reflecting growth of nearly 5% between 2007 and 2009.

The township has seen increases both in commercial and residential development recently. There are a good number of office and industrial parks, and the township hosts more than 2,300 acres of non-residential development. Per management, there are twelve active non-residential projects currently in the pipeline including two hotels, an indoor recreation facility, restaurants, and a senior living facility. Residential new development is also flourishing here, with close to 2,200 new residential units on-line in the past decade. There are seven residential developments currently under construction, expected to bring roughly 1,000 new units to the tax rolls.

Top ten taxpayers are about 8% of the tax base, which is slightly elevated, and somewhat concentrated to retail. Top ten employers are a healthy mix of manufacturing and healthcare-based firms. Of note, a top employer for the township, Westinghouse Electric, has recently filed for bankruptcy. While a moderate concern for employment in the area, anticipated layoffs are not expected to have a material impact on the township at this time.

Along with growth in assessed value, population has grown for the township as well, up 5% since 2010. Wealth levels are very healthy here with median family income at 176% of the state and 182% of the national median. Poverty is very low at just 2.45%.

### Financial Operations and Reserves: Ample Reserve Levels, Consistent Operating Surpluses

The township has produced consistent, healthy general fund surpluses before transfers for the past six years. At fiscal 2016 year end, the surplus before transfers and a one-time sale of assets is \$3.8 million, or a considerable 18% of revenue. This speaks to conservative management and a strong adherence to structurally balanced operations.

Revenue is largely derived from taxes (roughly 74% of total), and tax sources are varied. The primary revenue source is earned income tax (35% of total revenue), while property tax is just 15% of revenue. The township has not raised property taxes in seven years, aside

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from a modest .25 mills to purchase two fire trucks last year. We believe that there is capacity to comfortably raise property taxes here should income tax decline, though EIT has shown steady increases each year for the past six fiscal years.

In addition to a healthy general fund balance of \$12 million, or a substantial 57% of revenues, the township maintains a capital fund for pay-go capital spending. Its water and sewer utility funds are self-supporting.

#### LIQUIDITY

At the end of fiscal 2016, cash and investments totaled \$10.8 million, or 59% of revenues. This is a very strong liquidity position, in line with Aaa-peers in the commonwealth and nation.

#### Debt and Pensions: Manageable Debt Burden and Pension Cost

The current direct debt burden of 2.5% of full value is somewhat elevated versus the US median of 1.2%. While manageable, this includes debt of the township's sewer system, which we believe is self-supporting once non-operating revenues are considered. With this adjustment, the GO direct debt burden is reduced to \$27 million, or a very reasonable 0.8% of full value.

#### DEBT STRUCTURE

All debt is fixed rate. Amortization of principal is average, with 68% repaid within ten years. Debt service excluding sewer debt was roughly \$2.3 million in fiscal 2016, or 10% of general fund expenditures.

#### DEBT-RELATED DERIVATIVES

There are no debt-related derivatives.

#### PENSIONS AND OPEB

The township contributes to one single-employer defined benefit plan, the Police Pension Plan. For fiscal year 2016, the township's minimum municipal obligation was \$505,824, or 2.9% of general fund expenditures. The fiscal 2016 three-year average adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$8.4 million or a well-below average 0.43 times operating revenues. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported liability information, but to improve comparability with other rated entities.

Employees do not receive any other post-employment benefits.

Total fixed costs for fiscal 2016, including debt service and required pension contributions, were \$2.8 million, or a very manageable 13% of general fund expenditures.

#### Management and Governance

Township management is experienced, with a history of conservative budgeting. The township maintains capital funds outside of the general fund to provide for a healthy cushion against unexpected capital costs and routine pay-go expenditures. The township is guided by a five year capital improvement plan.

Pennsylvania cities (including townships) have an institutional framework score of "Aa," or strong. Revenues are moderately predictable; although property taxes are typically the largest revenue source, many cities also rely on economically sensitive revenues such as income taxes. Cities have a very high, unlimited authority to increase property tax rates. Expenditures, which primarily consist of personnel, are moderately predictable as cities have been challenged to forecast labor costs accurately. Organized labor has a strong presence in the state, and labor laws give bargaining groups significant leeway to seek arbitration, resulting in a moderate expenditure reduction ability.

#### Legal Security

The bonds are secured by the township's general obligation unlimited tax pledge.

#### Use of Proceeds

Proceeds from the \$8 million 2017 A Series will be applied towards capital improvements at the township's Brush Creek Water Pollution Control Facility. Proceeds from the \$2 million 2017 B bonds will be used to finance other capital projects in the township.

## Obligor Profile

Cranberry Township has a population of approximately 29,450 and is located in Butler County, approximately 25 miles northwest of Pittsburgh (A1 stable).

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Cranberry (Township of) PA

Issue	Rating
General Obligation Bonds, Series A of 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$8,000,000
Expected Sale Date	09/28/2017
Rating Description	General Obligation
General Obligation Bonds, Series B of 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$2,000,000
Expected Sale Date	09/28/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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