S&P Global
Ratings

RatingsDirect®

Summary:

Millcreek Township School District, Pennsylvania; General Obligation

Primary Credit Analyst:
Geoffrey E Buswick, Boston (1) 617-530-8311; geoffrey.buswick@spglobal.com

Secondary Contact:
Bobby E Otter, Chicago + 1-312-233-7071; robert.otter@spglobal.com

Table Of Contents

Summary:

Millcreek Township School District, Pennsylvania; General Obligation

Credit Profile		
US$50.0 mil GO bnds ser 2019 due 09/15/2035		
Long Term Rating	A+/Stable	New
Millcreek Twp Sch Dist GO nts (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO (ASSURED GTY)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Underlying Rating for Credit Program	NR	

Rationale

S&P Global Ratings raised its rating on Millcreek Township School District, Pa.'s parity debt outstanding to 'A+' from 'A'. At the same time, S&P Global Ratings assigned its 'A+' rating to the district's $50 million, series 2019 general obligation (GO) bonds. The outlook is stable.

The upgrade is based on the district's improved and consistent financial performance bringing many metrics into line with those of higher-rated peers.

Security and use of proceeds

The district's full-faith-and-credit GO pledge secures the bonds. The bonds are subject to Pennsylvania's Act 1 Index. The Act 1 Index under Pennsylvania commonwealth statute restricts a district's ability to raise the tax levy higher than a certain index, which the Pennsylvania Department of Education determines. We rate the district's limited-tax GO debt at the same level as our view of the district's general creditworthiness because of a lack of limitations on the fungibility of resources available for debt service. The district will use proceeds from the series 2019 bonds to finance capital projects at multiple sites.

Credit summary

Millcreek Township School District has increased its fund balance each year since 2013, resulting in $15.2 million, or 15.9% of expenditures, at unaudited fiscal year-end 2019 (June 30). That said, the district cites rising pension obligations, and special education and health care costs as looming pressures. As management addresses those expenses, it expects to be able to remain under the Act 1 index. In addition, in order to bring all 11 school buildings up to a higher educational delivery level, the district has a $100 million capital plan. This bond issue addresses phase 1 of the plan. Including this debt, amortization is above-average at 59% and debt remains comparable with that of peers at $1,725 per capita. Stable enrollment and a demonstrated ability to deliver positive operating results lead us to believe that the district has the flexibility to maintain this improved credit condition while implementing a relatively sizable capital program.

The rating reflects our opinion of the district's:

- Primarily residential area that benefits from its access to the Erie metropolitan employment base with strong wealth and income indicators;
- Healthy tax base growth, with no taxpayer concentration; and
- Low debt with above-average amortization.

We believe the above strengths are somewhat offset by the rising pension costs associated with the Pennsylvania Public School Employees' Retirement System (PSERS).

Economy

Millcreek Township School District covers 29.5 square miles and serves a population of about 53,300 on the shores of Lake Erie. The district is adjacent to the larger city of Erie, and residents benefit from the greater Erie metropolitan economy. The primarily residential district serves as a bedroom community to the greater Erie area, but has median household income higher than, and unemployment lower than encompassing Erie County and the state of Pennsylvania. Erie Indemnity Co., a large insurance provider, is one of the county's leading employers and has recently made significant investments in its Erie facilities, signifying its intention to build its brand in the area. Other leading employers include Wabtec US Rail Inc., a rail industry supplier; two hospitals; and federal, state, and county government facilities. In our opinion, the property tax base continues to display healthy growth, increasing 12.4% since 2014. Per capita market value equates to a strong $69,781. We view median household and per capita effective buying incomes to be good to strong at 105% and 113%, respectively, of national levels.

The district operates five kindergarten-fifth-grade elementary schools, three sixth-eighth-grade middle schools, one ninth-10th-grade intermediate school, one 11th-12th-grade senior school, and one alternative-education school. Student enrollment has been mostly static over the past four years, with current enrollment at 6,662 for the 2019-2020 academic year. Official project enrollment will grow slightly to about 6,725 students through 2025. All facilities are part of a $100 million, 10-year capital improvement program. While no major expansions are included, there is extensive HVAC, lighting, and mechanical work planned throughout the district. The new program also includes a long-term maintenance plan and a long-range technology plan in an effort to maintain assets in a state of good repair.

Finances

Millcreek Township School District experienced a significant erosion of reserves during the Great Recession through fiscal 2013, with a nadir of a negative $571,000 fund balance. With new financial management in 2014 coupled with a stabilizing economy, the fund balance has grown to $15.2 million in fiscal 2019, a good 15.9% of expenditures. Management remains committed to maintaining tight expenditure controls, presenting structurally balanced budgets that do not require the use of reserves, and maintaining reserve levels. The fiscal 2020 budget, with $103 million of budgeted expenditures, was created using a zero-based budgeting model, was within the Act 1 limit, and still was able to incorporate a number of new initiatives, including a manufacturing academy to better prepare graduates for specific regional manufacturing jobs, introducing expanded advanced placement programs, and expanding a relationship with a nature center to enhance STEM learning.

Financial management assessment

We consider the district's management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas. The district's budget process includes a zero-based budgeting model. The budget can be amended as needed and the board receives a monthly budget-to-actual report. The district's 10-year, long-term capital plan will be funded through both additional debt and pay-as-you-go spending. The district's formal investment policy is guided by state statute and management provides monthly investment holdings reports to the board. There is no formal debt management policy but the district adheres to state guidelines. The district has an 8% unreserved fund balance policy.

Debt

In our opinion, overall net debt, including overlapping debt and net of state aid reimbursements, is a low 2.5% of market value, or $1,725 per capita. We consider principal amortization to be above-average, with officials planning to retire 59% of debt over 10 years and 100% over 15 years. Maximum annual debt service of $7.14 million occurs in 2023, with a 1.804 millage required to support that. The millage increase approved for the fiscal 2020 budget is sufficient to cover that maximum amount. However, the capital plan does call for another $50 million bond issuance in approximately year five that is expected to wrap the existing structure and extend overall maturity to smooth payment obligations. Debt service of $5.7 million accounted for, in our view, a moderate 5.5% of expenditures in fiscal 2020.

Pension and other postemployment benefit liabilities

The district paid its full required contribution of $13.3 million toward its pension obligations in fiscal 2018, or 13.5% of total governmental expenditures. The district also contributed $346,789, or 0.4% of total governmental expenditures, toward its other postemployment benefit (OPEB) obligations in fiscal 2018. Combined pension and OPEB carrying charges totaled 13.9% of total governmental fund expenditures in 2018.

The district participates in and contributes to the commonwealth-administered PSERS, a cost-sharing, multiple-employer defined benefit plan. Its required pension contribution is actuarially determined and calculated at the state level. Historically, it has made 100% of the required contributions.

According to Governmental Accounting Standards Board Statement No. 67, PSERS' net pension liability was $48 billion with a funded ratio--the plan's fiduciary net position as a percentage of total pension liability--of 54.0% at June 30, 2018, up from 51.8% in fiscal 2017. The district's proportion of the net PSERS liability as of the most recent actuarial valuation in 2018 was $150.3 million.

Employer contributions to PSERS are starting to moderate and are expected to level off through fiscal 2022. The district believes the largest year-over-year increases to the pension system are behind it and it is less concerned about its ability to fund the increases over the coming years. Despite this moderation, we believe pension costs will remain a source of strain on school district budgets, and we will factor the district's method of addressing these pressures into our credit analysis.

The district also provides OPEBs to eligible retirees, which it funds with pay-as-you-go financing. The OPEB liability totaled $10.3 million as of 2018.

Outlook

The stable outlook reflects our view that the district, supported by good management practices and a growing regional economy, will continue to achieve positive operating results while managing the large, two-tiered capital program.

Upside scenario

Although not expected within the two-year outlook horizon, we could raise the rating should the district strengthen reserves and maintain them at a level commensurate with those of higher-rated peers, while implementing the capital improvements.

Downside scenario

We could lower the rating if reserve levels were to again diminish and the capital program was not managed within current expectations.

Ratings Detail (As Of November 7, 2019)		
Millcreek Twp Sch Dist GO		
Long Term Rating	A+/Stable	Upgraded
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO nts		
Long Term Rating	A+/Stable	Upgraded
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO nts rfdg ser B of 2013 dtd 09/12/2013 due 09/15/2020-2023		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO nts rfdg ser C of 2013 dtd 09/12/2013 due 09/15/2022-2026		
Long Term Rating	A+/Stable	Upgraded
Underlying Rating for Credit Program	NR	

Many issues are enhanced by bond insurance.

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 © 2019 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 (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.