

CREDIT OPINION

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New Issue

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Monroeville (Municipality of) PA

New Issue - Moody's Assigns Positive Outlook to Monroeville, PA; Assigns Aa3 to Series of 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aa3 rating to the Municipality of Monroeville, PA's General Obligation Bonds, Series of 2017. Concurrently, Moody's has affirmed the municipality's general obligation rating at Aa3. We have also assigned the municipality a positive outlook. This rating action affects all of the municipality's outstanding debt, which will total \$19.3 million post sale.

The Aa3 rating reflects the municipality's sizable and steady tax base growth, continued positive trend in reserves, above-average income levels, and conservative budgeting. The rating also incorporates the municipality's affordable debt burden, with no future planned issuances, and modest pension liability.

Credit Strengths

- » Sizable tax base in proximity to Pittsburgh (A1 stable)
- » Positive trend in reserves
- » Conservative budgeting

Credit Challenges

- » Mature tax base
- » Ability to sustain reserves commensurate with rating category
- » Elevated fixed cost burden

Rating Outlook

The positive outlook reflects our view that the municipality's positive financial trend will continue over the near term.

Factors that Could Lead to an Upgrade

- » Material growth in tax base and/or income levels
- » Significant growth in General Fund reserves
- » Demonstrated ability to maintain reserves over the long term

Factors that Could Lead to a Downgrade

- » Significant decline in the municipality's tax base and/or income levels
- » Material increase in debt burden
- » Significant decline in the municipality's reserve or liquidity position

Key Indicators

Exhibit 1

| Monroeville (Municipality of) PA | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$ 2,293,435 | \$ 2,293,655 | \$ 2,240,560 | \$ 2,441,483 | \$ 2,523,507 |
| Full Value Per Capita | \$ 80,906 | \$ 80,985 | \$ 79,001 | \$ 86,074 | \$ 89,025 |
| Median Family Income (% of USMedian) | 115.1% | 114.3% | 116.3% | 113.2% | 116.8% |
| Finances | | | | | |
| Operating Revenue (\$000) | \$ 23,015 | \$ 23,255 | \$ 23,968 | \$ 28,662 | \$ 31,141 |
| Fund Balance as a % of Revenues | 29.0% | 22.7% | 15.9% | 20.8% | 25.4% |
| Cash Balance as a % of Revenues | 26.9% | 18.0% | 16.6% | 17.8% | 15.1% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$ 30,210 | \$ 28,730 | \$ 26,440 | \$ 25,423 | \$ 23,601 |
| Net Direct Debt / Operating Revenues (x) | 1.3x | 1.2x | 1.1x | 0.9x | 0.8x |
| Net Direct Debt / Full Value (%) | 1.3% | 1.3% | 1.4% | 1.0% | 0.9% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | N/A | 0.8x | 1.1x | 1.1x | 1.2x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | N/A | 0.8% | 1.4% | 1.3% | 1.5% |

Source: Moody's Investors Service; Audited Financial Statements

Detailed Rating Considerations

Economy and Tax Base: Residential Base with Health Care Presence Outside of Pittsburgh

The municipality's \$2.7 billion tax base will continue to benefit from proximity to [Pittsburgh](#) (A1 stable), improved residential activity boosting home prices, and overall an improving and diversifying economy for commercial and industrial enterprises. Located in [Allegheny County](#) (A1 positive), the municipality's tax base is about half residential by assessed value (AV), which is complemented by local employment opportunities in health care, information technology, and manufacturing. Growth over the last five years has been strong at an average rate of 3.2%, which is comparably stronger than most Commonwealth cities. Overall, the diverse mix of commercial businesses yields little risk from taxpayer concentration (the top 10 taxpayers represent 13.5% of total AV), and the municipality's employment base has benefited from the presence of Forbes Regional Hospital and the eastern outpost of the [University of Pittsburgh Medical Center](#) (Aa3 negative). Overall, the municipality is roughly 91% built out, yet management reports some hotels and smaller businesses opening up recently, in addition to developers scouting mixed use development at an old, vacant airport and golf course.

Resident income levels are slightly above state and national levels, with a median family income of 116.8% of the national median, as of the 2015 US Census. Full value per capita at \$94,580 is on an upward trend and on par with comparably rated Commonwealth cities. Monroeville's unemployment rate, at 4.7% as of February 2017, is between that of the state (5.1%) and the nation (4.6%), over the same period.

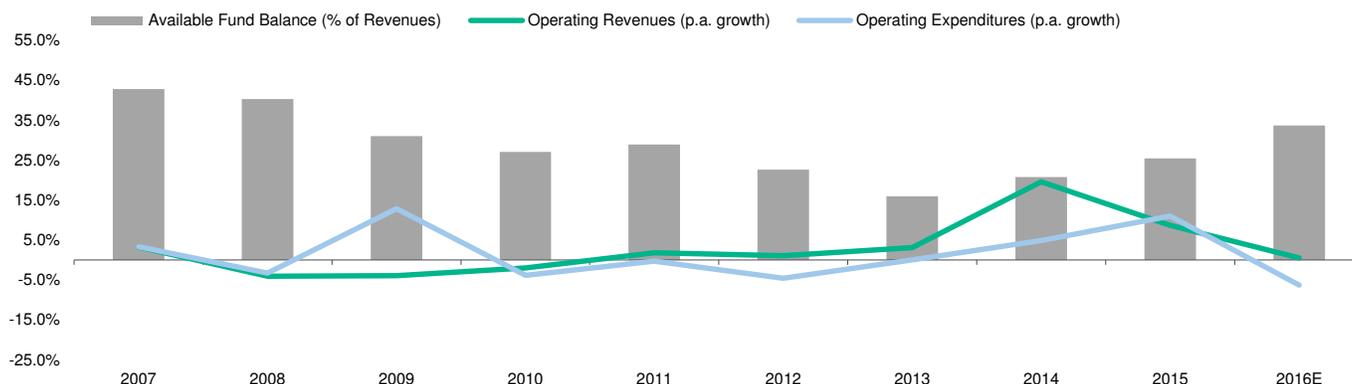
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial Operations and Reserves: Positive Trend Expected to Continue in Near Term

Prior year draws in fund balance had resulted from funding of various capital improvement projects, other post-employment benefit (OPEB) contributions, and support of operating expenditures. Additionally, the municipality relied on a windfall from the sale of its sewer system back in 2002 to support operations. Favorably, however, management increase property taxes for fiscal 2014 from 2.431 mills to 4 mills, which resulted in a \$3 million increase in the municipality's largest revenue source. Additionally, management revamped its business tax collections in September 2014 which has garnered added delinquent revenues. Since troughing at a low of \$3.8 million (15.9% of annual revenues) at the end of fiscal 2013, General Fund balance has climbed back to \$7.9 million (25.4%) at the end of fiscal 2015. Unaudited 2016 results reflect a further improvement to \$10.5 million (33.7%), driven by stronger-than-anticipated earned income and real estate tax receipts, as well as controlled expenditures from settling collective bargaining contracts. Additionally, these strong surpluses are inclusive of approximately \$1 million transferred over each of the last three years (2014 - 2016) to a Capital Projects Fund, which maintained a balance of approximately \$1 million at the beginning of the current fiscal year. Overall, these factors have led to marked improvement in the municipality's financial position on an operating (General + Debt Service Fund) basis (see Exhibit 2 below).

Exhibit 2

Since 2013, operating revenues have in all but one year grown at a faster pace than expenditures, leading to an overall improved fund balance



*Note: 2016 figures are unaudited

Source: Moody's Investors Service; Monroeville Financial Statements

The municipality approved a balanced fiscal 2017 budget of \$31.5 million, which includes the recurring transfer for Capital of \$1 million. Overall headcount is down slightly, which has helped contain current year expenditures, and management reports positive mercantile tax receipts and no outsized expenditures year to date.

Taxes are the district's largest source of operating revenues, accounting for approximately 85.8% of total operating revenues during fiscal 2015. Positively, the largest share is generated from Real Estate taxes, followed by Earned Income taxes and Business Privilege taxes. Expenditures consist primarily of Public Safety (41.8% of operating revenues), Culture/Recreation (13.1%) and Public Works (12.9%).

LIQUIDITY

The municipality's liquidity position has historically been narrow yet has improved as of late. At the end of fiscal 2015, cash and investments totaled \$4.7 million, or 15.1% of annual General Fund revenues. Unaudited 2016 figures reflect a marked improvement to an eight-year high of \$8.3 million, or approximately 26.5% of annual revenues. Management reports no plans to spend down liquidity for capital or other one-time needs.

Debt and Pensions: Moderate and Declining Burden With No Future Borrowing Plans

The municipality's debt profile will remain moderate given a fast amortization schedule and absence of plans for additional borrowings over the next few years. Post sale, the municipality's debt burden will be 0.8% of full value, a value that has declined steadily since peaking at 1.4% at the end of fiscal 2013. Management's capital plan has been funded 50-50 between bond proceeds and pay-go,

in addition to receiving multiple grants for park and outdoor space improvements. Total debt service will remain approximately \$3.2 million before dropping off in 2023. Management has no new plans for additional borrowing at this time.

DEBT STRUCTURE

All of the municipality's debt is fixed rate and will mature by 2022.

DEBT-RELATED DERIVATIVES

The municipality is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

Monroeville administers two defined benefit plans - one non-uniform pension plan affiliated with the Pennsylvania Municipal Retirement System (PMRS), an agent multiple-employer plan, and a police pension plan, a single-employer plan. The combined annual required contribution (ARC) for the plans was \$3.6 million, which was met in full and amounted to 11.6% of operating revenues. The fiscal 2015 three-year average Moody's Adjusted Net Pension Liability, under Moody's [methodology](#) for adjusting reported pension data, was \$102.4 million, or a modest 1.2x operating revenues or 1.5% of full value. The adjustments are not intended to replace the district's reported liability information, but rather to improve comparability with other rated entities. We determine the district's share of liability for the state-run plan in proportion to its contributions to the plan.

The municipality also provides other post-employment benefits (OPEB) and since 2009 has authorized the creation of an OPEB Trust, towards which it has funded on a recurring basis. During fiscal 2015, contributions were \$1.0 million, or 44.0% of the annual required contribution. As of January 2014, the latest valuation date, the district's associated unfunded actuarial accrued liability (UAAL) was approximately \$27.4 million, yet is funded north of 15% due to reserves totaling approximately \$6 million, an aspect which we note as a credit positive.

Total fixed costs during fiscal 2015, inclusive of debt service, required pension contributions, and health care contributions, totaled \$7.8 million, or a slightly elevated 25.0% of Operating Funds revenues.

Management and Governance

Management is guided by financial policies, evidenced by a formal fund balance policy of maintaining a fund balance above 10% of annual revenues. Additionally, while modestly above, management has actively targeted debt service not exceeding 10% of non-capital expenditures. There are currently no material tax appeals or litigation outstanding, and the municipality's four collective bargaining agreements are in place through 2018 at the earliest.

Pennsylvania Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities major revenue sources, property taxes, are moderately predictable but most cities are also expose to economically sensitive income taxes. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Pennsylvania has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditures fluctuations tend to be moderate, between 5-10% annually.

Legal Security

The Series 2017, in addition to all outstanding debt, are secured by the municipality's general obligation unlimited tax pledge and ability to levy ad valorem taxes for the payment of debt service, without limitation as to rate or amount.

Use of Proceeds

Proceeds of the Series 2017 will be used to currently refund a portion of the outstanding Series A of 2012 and all of the outstanding Series B of 2012 for an overall net present value savings of approximately \$200,000 realized up front.

Obligor Profile

Monroeville is located in Allegheny County, approximately 13 miles east of Pittsburgh, and has an estimated resident population of 28,346.

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.moody.com for a copy of this methodology.

Ratings

Exhibit 3

Monroeville (Municipality of) PA

| Issue | Rating |
|--|--------------------|
| General Obligation Bonds, Series of 2017 | Aa3 |
| Rating Type | Underlying LT |
| Sale Amount | \$7,775,000 |
| Expected Sale Date | 06/01/2017 |
| Rating Description | General Obligation |

Source: Moody's Investors Service

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