

RatingsDirect®

Summary:

**Gettysburg Municipal
Authority/Gettysburg, Pennsylvania
Gettysburg; General Obligation;
General Obligation Equivalent
Security**

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Summary:

Gettysburg Municipal Authority/Gettysburg, Pennsylvania

Gettysburg; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$8.285 mil GO bnds ser 2016 due 11/15/2028

<i>Long Term Rating</i>	A+/Stable	New
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US\$6.52 mil gtd rev bnds (Gettysburg) ser 2016 due 11/15/2029

<i>Long Term Rating</i>	A+/Stable	New
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Gettysburg GO

<i>Long Term Rating</i>	A+/Stable	Affirmed
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Gettysburg GO (ASSURED GTY)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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Gettysburg Mun Auth, Pennsylvania

Gettysburg, Pennsylvania

Gettysburg Mun Auth (Gettysburg) GO (AGM)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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Gettysburg Mun Auth (Gettysburg) (AGM)

<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Gettysburg, Pa.'s series 2016 general obligation (GO) bonds. S&P Global Ratings also assigned its 'A+' long-term rating to the borough's series 2016 guaranteed sewer revenue bonds issued by the Gettysburg Municipal Authority, and supported by Gettysburg's GO pledge.

At the same time, we affirmed our 'A+' rating on the borough's outstanding GO debt and affirmed our 'A+' rating on the borough's existing guaranteed sewer revenue bonds also issued by Gettysburg Municipal Authority and supported by Gettysburg's GO pledge. The outlook on all ratings is stable.

The borough's full faith and credit pledge secures the series 2016 GO bonds. As such, the borough has the authority to levy ad valorem taxes on all taxable property within the borough without limitation on the rate or amount. We understand Gettysburg officials intend to use the bond proceeds to fund various capital projects and refund the borough's series 2010 GO bonds.

Meanwhile, the series 2016 guaranteed sewer revenue bonds are secured by a pledge of the receipts and revenues

from the sewer system and the pledge of Gettysburg's full faith and credit, which includes the ability to levy ad valorem taxes on all taxable property within the borough without limitation on the rate or amount, as agreed to under the Guaranty Agreement between the borough and the municipal authority. The 'A+' rating for the series 2016 guaranteed sewer revenue bonds is based upon the GO pledge of the borough, which we view as the stronger pledge. We understand officials intend to use series 2016 bond proceeds to refund the authority's series 2010 guaranteed sewer revenue bonds.

The ratings reflect our opinion of the following factors for Gettysburg Borough:

- Weak economy, with projected per capita effective buying income at 63.3% and market value per capita of \$51,556;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 49.9% of total governmental fund expenditures and 3.6x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 13.8% of expenditures and net direct debt that is 269.1% of total governmental fund revenue; and
- Strong institutional framework score.

Weak economy

We consider Gettysburg's economy weak. The borough, with an estimated population of 7,474, is located in Adams County and has a projected per capita effective buying income of 63.3% of the national level and a per capita market value of \$51,556. Overall, the borough's market value grew by 1.9% to \$385.3 million in 2015. The county unemployment rate was 4.1% in 2015.

The 1.6-square-mile borough is Adams County's seat and the county's most populous municipality. It is 30 miles south of Harrisburg, 25 miles west of York, and 50 miles north of Baltimore. Knouse Foods Cooperative Inc. is the county's leading local employer. Other leading employers include Gettysburg College, Gettysburg Hospital, and the federal government. The local economy is mainly tourism-based due to the presence of Gettysburg National Military Park and the Eisenhower National Historic Site.

In our view the Gettysburg National Military Park, and other local historic sites, provide stability to the borough's economy. In 2014 the national parks located throughout Adams County drew approximately four million visitors to the area. Recent renovations by the borough have attracted private investment, including a new brewery and a soon-to-open distillery and hotel. Such developments, and increasing tourism, boost the borough's share of collections from the county's tax on hotel rooms, known as the Pillow Tax. Revenue from the Pillow Tax is disbursed to municipalities throughout the county to help fund local police departments.

Strong management

We view the borough's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We revised the borough's FMA score to good from standard based on its

recently adopted formal fund balance policy.

When drafting the budget, officials analyze three to four years of historical revenues as well as new assessed value figures to calculate expected real estate tax revenue. On the expenditure side, management uses zero-based budgeting. At this time, officials do not perform formal long-term financial forecasting. Capital planning is performed through the borough's five-year capital plan which is updated annually.

The borough has an informal policy to follow state guidelines for investments but does not have a formal debt management policy. Officials recently drafted a formal fund balance policy, which was adopted by the Borough Council. The policy directs the borough to maintain a minimum fund balance of 18% of general fund revenues for the fiscal year, with a target of no less than 25%.

Adequate budgetary performance

Gettysburg's budgetary performance is adequate in our opinion. The borough had balanced operating results in the general fund of negative 0.1% of expenditures, but a deficit result across all governmental funds of negative 2% in fiscal 2014.

The borough posted a slight deficit in the general fund of approximately \$3,400 in fiscal 2014. According to management, a labor contract was settled with the borough's police department which resulted in larger cost increases than were budgeted for. In addition, the borough completed the sale of its historic train station in fiscal 2014. The borough received approximately \$500,000 from the sale, and the proceeds were split between the borough's general fund reserves and its capital reserve fund. The borough experienced a deficit across total governmental funds in fiscal 2015 due to the use of capital project and capital reserve funds to pay for capital expenditures.

In fiscal 2015, the borough created a Debt Service Reserve Fund and used the new fund to pay debt service expenses. To do this, the borough transferred approximately \$698,569 from the general fund to the new debt service reserve fund. Because debt service expenses were no longer being paid out of the general fund, the general fund posted an operating surplus of approximately \$394,401, before the \$698,569 transfer. After the transfer to the debt service fund, the general fund posted a deficit of \$304,169, which resulted in a reduction in general fund reserves. However, \$250,618 of this deficit was the result of the movement of funds from the general fund to the debt service fund. This was done to have a reserve level in the debt service fund that was compliant with the borough's newly adopted fund balance policy, and was not due to operations. As a result, the borough's true operating deficit was approximately \$53,551, or 1.2% of expenditures.

For fiscal 2016, the borough council cut approximately \$215,000 in expenditures to balance the borough's \$4.7 million budget. Based on current trends, officials expect balanced operations across all governmental funds for the fiscal year. In our view, the borough has strong management in place that is committed to maintaining fiscal stability.

Very strong budgetary flexibility

Gettysburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 29% of operating expenditures, or \$1.4 million. In fiscal 2014, the borough's available fund balance increased by \$256,102, to approximately \$1.4 million. This increase was partially due to proceeds the borough received as a result of the sale of the borough's historic train station.

In fiscal 2015, the borough created a debt service reserve fund as part of the borough's newly adopted fund balance policy. To maintain compliance with the new policy, funds were moved from the borough's general fund reserves to the newly created debt service reserve fund. At the end of fiscal 2015 this fund had approximately \$250,618, or 5%, of operating expenditures. As a result of the borough's slight operating deficit and the movement of funds to the debt service reserve, the borough's fund balance fell to approximately \$1 million at the end of fiscal 2015, or 24% of operating expenditures, a level we still consider very strong.

Very strong liquidity

In our opinion, Gettysburg's liquidity is very strong, with total government available cash at 49.9% of total governmental fund expenditures and 3.6x governmental debt service in 2014. In our view, the borough has strong access to external liquidity if necessary. We believe the borough's strong access to external liquidity is demonstrated by its regular issuance of GO bonds. In addition, the borough does not engage in what we consider aggressive use of investments, as the borough does not have any investments and all cash is held in the borough's bank accounts. Also, the borough does not have exposure to any variable-rate or direct-purchase debt. The borough has consistently had very strong liquidity and we expect this to continue over the next two to three years.

Very weak debt and contingent liability profile

In our view, Gettysburg's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.8% of total governmental fund expenditures, and net direct debt is 269.1% of total governmental fund revenue. At this time, neither the borough nor the authority expects to issue any additional debt over the next two years.

Gettysburg's pension contributions totaled 4.6% of total governmental fund expenditures in 2014. The borough made its full annual required pension contribution in 2014. The borough contributes to two agent multiple-employer defined-benefit pension plans, the Police Pension Plan and Non-Uniformed Pension Plan. The borough has historically contributed 100% of the annual pension cost. As of Jan. 1, 2013, the most recent actuarial valuation date, the Police Pension Plan was funded at 94.7% and the Non-Uniformed Pension Plan was funded at 88.4%. The borough does not offer other postemployment benefits.

Strong institutional framework

The institutional framework score for Pennsylvania non-home-rule cities, boroughs, and townships is strong.

Utility system overview

The relatively small, but stable, sewer system serves 3,020 customers in Gettysburg and portions of the neighboring Straban and Cumberland townships. The customer base is concentrated with the 10 leading customers, accounting for 28% of total usage in fiscal 2015. We consider borough income levels adequate with median household effective buying income equal to 79% of the national average. However, this has trended downward in recent years reflecting an overall weak economy.

We consider rates moderately affordable at \$46.52 per month, and when annualized represents 1.6% of the borough's median household effective buying income. In our view, the system's three million gallon per day (mgd) sewage treatment plant provides sufficient capacity for the system's 1.8 mgd average flow. The authority also owns and operates a 2.32 MGD sequential batch reactor type wastewater treatment plant.

We believe the authority's sewer system finances are just adequate, as evidenced by the historically thin all-in debt service coverage (DSC), including GO debt the system supports. Pledged net sewer revenues in fiscal 2013 provided a thin-0.98x all-in DSC, including series 2012 GO debt service the system self-supports. The all-in DSC improved to 1.33x in fiscal 2014 following a sewer rate increase in 2013. The all-in DSC for audited fiscal 2015 is at 1.40x. The total annual debt service will increase to \$1.32 million in fiscal 2016, due to the issuance of series 2015 and 2016 bonds. The budgeted fiscal 2016 all-in DSC is also at the same level as fiscals 2014 and 2015.

The system's liquidity position is very strong with \$3.7 million in fiscal 2015, or strong 740 days' cash on hand. Officials intend to use series 2016 bond proceeds to advance refund completely the series 2010 bonds. Since the series 2016 bonds are refunding bonds, we don't expect the system's debt burden to increase. The debt-to-capitalization ratio is likely to remain at 42%, after the issuance of the 2016 bonds.

Outlook

The stable outlook reflects our opinion of the borough's strong management, very strong reserves, and very strong liquidity. In addition, we believe the draw of the Gettysburg National Military Park and other local historic sites provide stability to the borough's local economy. Therefore, we do not expect to change the rating within the two-year outlook period.

Upside scenario

If financial performance were to show sustained improvement, coupled with sustained increases in the borough's economic indicators to levels we consider commensurate with higher-rated peers, we could raise the rating.

Downside scenario

If financial performance were to deteriorate leading to sustained decreases in reserve levels, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Rating Methodology And Assumptions For U.S. Municipal Waterworks And Sanitary Sewer Utility Revenue Bonds, Jan. 19, 2016
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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.

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