S&P Global
Ratings

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Summary:

Millcreek Township School District, Pennsylvania; General Obligation

Primary Credit Analyst:
Cora Bruemmer, Chicago + 1 (312) 233 7099; cora.bruemmer@spglobal.com

Secondary Contact:
Stephanie Megas, Centennial; stephanie.megas@spglobal.com

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Summary:

Millcreek Township School District, Pennsylvania; General Obligation

Credit Profile		
US$62.0 mil GO bnds ser 2022 due 09/15/2042		
Long Term Rating	A+/Stable	New
Millcreek Twp Sch Dist GO		
Long Term Rating	A+/Stable	Affirmed
Underlying Rating for Credit Program	NR	

Rating Action

S&P Global Ratings assigned its 'A+' rating to Millcreek Township School District, Pa.'s approximately $62 million series 2022 general obligation (GO) bonds. At the same time, we affirmed our 'A+' rating on the district's outstanding GO debt. The outlook is stable.

Proceeds from the series 2022 bonds will finance the second phase of its three-phase capital facilities plan, which includes various improvements and renovations to district facilities. The district's full-faith-and-credit GO pledge secures the bonds. The bonds are subject to Pennsylvania's Act 1 Index, which 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.

Credit overview

Millcreek Township School District has demonstrated strong general fund performance since turning its finances around in 2014. Management estimates 2021 closed with another surplus due to strong revenue growth and conservative budgeting during the pandemic. In 2022, officials plan to use $3.3 million of general fund reserves for a one-time capital contribution to its Vo-Tech school, but given the district's conservative budgeting and significant federal stimulus funds, we expect reserves to remain very strong. The district has shown a willingness to raise its property taxes up to the Act 1 index, which it plans to do in fiscal 2023 to accommodate its increased debt service costs. This bond issue addresses phase two of its three phase, long-term facilities plan. The district expects to issue another $15 million of debt for phase three in 2024, after which, we expect overall debt metrics to remain moderate. High pension costs as well as charter school costs will likely remain a pressure for the district, but management has demonstrated its willingness to adjust revenues accordingly to maintain structural balance. As a result, we expect the district's reserves to remain very strong over our outlook horizon, which is generally up to two years.

The 'A+' 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 growth in property tax, earned income tax, and real-estate transfer tax revenue;
- Strong general fund balance despite some planned use of reserves; and
- Moderate debt burden but high pension costs associated with the Pennsylvania Public School Employees' Retirement System (PSERS).

Environmental, social, and governance factors

In our view, the district's environmental, social and governance risks, relative to its economy, management, financial measures, and debt and liability profile, are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could raise the rating should the district increase reserves and maintain them at a level commensurate with those of higher-rated peers, while implementing its capital improvements.

Downside scenario

We could lower the rating if the district falls into a structural imbalance resulting in lower reserves that no longer compare with peers.

Credit Opinion

Mostly residential tax base with above-average incomes and access to the Erie metropolitan statistical area

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. The property tax base has demonstrated steady growth due to the appreciation of properties, but there has been relatively little new development. The tax base is very diverse, in our view, with the 10 largest taxpayers accounting for approximately 9.6% of assessed value (AV). The district's largest taxpayer is the Millcreek Mall (2.9% of AV). Officials report that the mall continues to have a high occupancy rate and attracts many out-of-state shoppers due to the lower sales tax compared to neighboring Ohio and New York. Overall, the COVID-19 pandemic has had a limited effect on the local economy, and school officials report that real estate tax and earned income tax revenues have continued to grow. S&P Global Economics forecasts continued strong economic growth in 2022, though somewhat slower than 2021. (For more information, please see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.)

Prior to the pandemic, student enrollment was mostly static. As has been the case in many districts, enrollment declined in 2021 and 2022 as families made different educational choices during the pandemic. Since enrollment is one of numerous factors in the commonwealth's basic-education-funding formula, enrollment declines do not have a significant effect on the amount of state aid the district receives. However, charter school enrollment is a cost to the district because it has to make charter school tuition payments. Charter school costs have increased during the pandemic growing to roughly $3.5 million in 2022. The district is active in reaching out to all families that choose charter schools and hopes to gain some of those students back but is budgeting for charter school costs to continue to grow. If charter school costs continue to escalate, we believe those costs could be an operating pressure.

Consecutive surpluses since 2014 with a one-time use of reserves planned in 2022

Following a low point in 2013, Millcreek Township School District has achieved consecutive general fund surpluses, adding to its general fund balance each year. Despite the pandemic, the district continued its streak of healthy surpluses in 2020 and 2021, due to stronger than budgeted revenues from real estate, real estate transfer, and earned income tax revenue. Expenditures were also lower than budget due to vacant positions, lower transportation and health care costs, and energy savings following recent renovations. The original fiscal 2022 budget called for a slight $100,000 general fund deficit, but management expects to amend the budget to use $3.3 million of reserves as a one-time capital contribution to its Vo-Tech school. The budget incorporates salaries under current employee contracts, which are settled through 2025, and an increase in property taxes to half of the Act 1 limit.

We believe the district has considerable financial flexibility given its remaining COVID-related stimulus funding. It has spent approximately $4.4 million of the $16.5 million of allocated to the district. Given the district's history of structural balance, strong revenue growth, and healthy remaining stimulus funds, we expect that the district's general fund reserves will remain very strong, despite the one-time use planned in 2022.

Good financial policies under our FMA

We have revised our assessment of the district's management team to good from standard, reflecting that the district has begun formal financial forecasting for its general fund operations that projects out five years and is updated quarterly. Other management highlights include:

- A zero-based budgeting model that uses trend analysis that looks back five years;
- Monthly budget-to-actual reports shared with the board;
- A 10-year, long-term capital plan will be funded through both additional debt and pay-as-you-go spending that is reviewed annually and updated as needed;
- A formal investment policy is guided by state statute with monthly investment holdings reports provided to the board;
- No formal debt management policy but adherence to state guidelines; and
- A formal fund balance policy to maintain 8% of expenditures as unassigned general fund balance, which it is meeting.

Moderate overall net debt levels expected following third phase of debt issuance in 2024

Following this issuance, management expects to issue another $15 million of debt in 2024 for its third and final phase of its capital facilities plan. We expect debt metrics to remain moderate on a per capita basis and low to moderate relative to market value. Amortization is slower than average, though management reports that all of its facilities will be up to date after the third phase and there are no other debt needs. The district expects that it will increase its property tax levy up to the Act 1 index in 2023 to accommodate the increasing debt service.

Elevated pension and other postemployment benefit liabilities are a source pressure for Pennsylvania schools

Pension and OPEB obligations are a credit pressure for Pennsylvania schools due to high fixed costs and weak underlying plan assumptions and methodologies for its pension plan. Though some of the pension cost is reimbursed by the state, reducing its effects on the budget.

The district participates in the following plans:

- Pennsylvania Public School Employees' Retirement System (PSERS): 54.3% funded, with a proportionate share of the plan's net pension liability of about $151.5 million.
- PSERS OPEB: 0% funded, with a proportionate share of plan's net OPEB liability of about $6.3 million.
- Single-Employer OPEB Plan: 0% funded, with a net OPEB liability of about $9.4 million.

School districts in Pennsylvania have seen employer contributions increase sharply in the past five years, and although these are projected to remain steady in the near term, we expect pension costs will remain a source of budgetary pressure. In fiscal 2020, the district paid its full required contribution of $14.5 million, or 13.9% of total governmental expenditures, toward its pension obligations. Combined pension and OPEB carrying charges totaled 14.3% of total governmental fund expenditures in 2020.

The plan made funding progress in in the most recent year, with contributions exceeding static funding but less than our minimum funding progress metric. Contributions are contractual but based on an actuarial calculation using a layered amortization, with a level percent-of-pay method, over a 24-year period. The plan's amortization methods, especially the level 5% of payroll amortization, defer costs and will result in slow funding progress. With liabilities measured using a discount rate of 7.25%, we see some risk of cost escalation due to market volatility, but we are primarily concerned with contributions not keeping up with an actuarial plan toward full funding.

Millcreek Township School District, Pennsylvania Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			52,615	53,061	53,339
Median household EBI % of U.S.	Good		100	101	105
Per capita EBI % of U.S.	Good		108	110	113
Market value ($000)			3,787,814	3,712,483	3,722,068
Market value per capita ($)	Strong		71,991	69,966	69,781
Top 10 taxpayers % of taxable value	Very diverse		9.5	9.6	4.8
Financial indicators					
Total available reserves ($000)			15,523	13,873	12,306
Available reserves % of operating expenditures	Very strong		15.8	14.6	12.9
Total government cash % of governmental fund expenditures			78.5	31.1	24.9
Operating fund result % of expenditures			2.3	2.1	1.3
Financial Management Assessment	Good				

Millcreek Township School District, Pennsylvania Key Credit Metrics (cont.)					
	Characterization	**Most recent**	**Historical information**		
			2020	**2019**	**2018**
Enrollment		6,353	6,614	6,525	6,626
Debt and long-term liabilities					
Overall net debt % of market value	Low		2.3	1.3	1.4
Overall net debt per capita ($)	Moderate	2,510	1,666	913	991
Debt service % of governmental fund noncapital expenditures	Low		5.7	5.9	5.9
Direct debt 10-year amortization (%)	Slower than average	35	63	100	100
Required pension contribution % of governmental fund expenditures			13.9	14.3	13.5
OPEB actual contribution % of governmental fund expenditures			0.3	0.4	0.4
Minimum funding progress, largest pension plan (%)		91.2	82.6	81.3	76.3

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of December 21, 2021)		
Millcreek Twp Sch Dist GO nts		
Long Term Rating	A+/Stable	Affirmed
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	Affirmed
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO nts (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	NR	
Millcreek Twp Sch Dist GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

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.