

# RatingsDirect®

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## Summary:

# Wilkinsburg Borough, Pennsylvania; General Obligation

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## Table Of Contents

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Rating Action

Stable Outlook

Credit Opinion

Related Research

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### Credit Profile

US\$4.64 mil GO bonds ser 2021 due 07/15/2051

<i>Long Term Rating</i>	A/Stable	New
Wilkesburg Boro GO (AGM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Wilkesburg Boro GO (AGM) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed
Wilkesburg Boro GO (MAC) <i>Unenhanced Rating</i>	A(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rating Action

S&P Global Ratings assigned its 'A' long-term rating to Wilkesburg Borough, Pa.'s series 2021 \$4.64 million general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'A' underlying rating on the borough's existing GO debt. The outlook is stable.

The borough's full faith and credit and resources pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the bonds. Officials plan to use bond proceeds to current refund the existing series 2016 GO bonds for interest cost savings as well as to finance infrastructure renovations in the borough.

### Credit overview

Supporting the rating is Wilkesburg's stable real estate and income tax growth following pandemic-related declines in 2020, limited fixed-cost pressures, and maintenance of a very strong financial profile. We believe the economy remains weak, compared with those of higher-rated peers, due primarily to below-average per capita market values that continue to constrain the rating. The stable outlook reflects S&P Global Ratings' opinion that despite these limitations, the borough's major revenues will remain consistent and it will maintain its very strong financial position. For these reasons, we do not expect to change the rating within the two-year outlook period.

The rating reflects our view of the borough's:

- Weak economy, with projected per capita effective buying income at 83.1% and market value per capita of \$27,469, although that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total

governmental fund level in fiscal 2020;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 29% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.0% of total governmental fund expenditures and 6.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 6.2% of expenditures and net direct debt that is 63.0% of total governmental fund revenue, as well as rapid amortization, with 85.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

We analyzed the borough's ESG risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. Active cyber security monitoring and insurance are in place.

## **Stable Outlook**

### **Upside scenario**

All other credit factors held equal, we could raise the rating if economic factors improve, particularly if market value per capita were to be sustained above \$30,000.

### **Downside scenario**

Should the borough experience a structural imbalance that cannot be addressed in a timely manner and its budgetary performance and flexibility and liquidity weaken, we could lower the rating.

## **Credit Opinion**

### **Weak economy**

The borough, with an estimated population of 15,262, is located in Allegheny County in the Pittsburgh, PA MSA, which we consider to be broad and diverse. The borough has a projected per capita effective buying income of 83.1% of the national level and a low per capita market value of \$27,469 in 2020, which, in our view, indicates a limited tax base supporting the debt and is a negative credit factor. Overall, the borough's market value grew by 3.4% over the past year to \$419.2 million in 2020.

The economy did not exhibit any significant disruption and the borough's main revenue sources did not contract significantly during the COVID-19 pandemic. This is supported by S&P Global Economics' most recent forecast, "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, on RatingsDirect. The county's 2020 average unemployment rate of 9% exceeded the state and nation. This was due to the pandemic that caused it to peak at 15.9% April 2020; as of May 2021, it was down to 5.5%.

Wilkinsburg is primarily a residential community. Most residents commute to jobs in the neighboring city of Pittsburgh and countywide via an excellent roadway and public transportation system. About 70% of the borough's assessed

value is residential. The borough historically has high property tax delinquency due to the decline of steel mills and outmigration of families. There has been a drop in delinquencies, according to management, as the borough has had a new, more aggressive tax collector over the past few years. As of the latest survey, there are still numerous vacant properties within the borough. Wilkesburg is still in the process of demolishing some of the properties and revitalizing the local area, with a focus on the residential atmosphere. The business district has been outfitted with a two-lane street as opposed to the previous single lane, which has improved transportation in the area. Current collections and delinquent collections have been tracking well, with almost all budgeted real estate taxes collected or greater than budgeted as of September 2021, with the remainder expected to trickle in throughout the coming weeks.

### **Adequate management**

To determine its budget, the borough looks at five years of historical trends and conservatively estimates revenues and expenditures. It has a history of better-than-budgeted results. The borough council receives monthly budget-to-actual reports and can amend the budget as needed. The borough follows state investment guidelines with interest earnings reported monthly; all investments are held in the Pennsylvania Local Government Investment Trust (PLGIT). The borough does not have long-term financial or capital improvement plans. The borough does not have any formal debt management or reserve policies outside of state guidelines, but is in early planning to formalize its informal reserve target of 15%-20%, which it is currently meeting, established to mitigate disruptions in cash flow.

### **Adequate budgetary performance**

The borough had deficit operating results in the general fund of 3.3% of expenditures, but a surplus result across all governmental funds 4.9% in fiscal 2020. Our assessment accounts for the adjustment of recurring general fund transfers as well as one-time capital outlay in recent years.

Budgetary performance will likely remain at least adequate, in our opinion, given the borough's recent track record, stable revenues, and balanced 2021 budget. In addition, the borough reports that there are no plans to significantly increase or spend down available reserves over the next few years. The 2021 budget totals \$12.6 million and the revenue stream is fairly diverse, but the majority comes from real estate and earned income taxes, which account for 42% and 20%, respectively. Amid the pandemic, management notes that earned income tax and license, permit, and fine revenue saw the largest declines. In addition, the borough had some collapsed water and sewer infrastructure in 2020 that had to be fixed, resulting in unanticipated costs; to mitigate future issues, part of the bond proceeds for the 2021 GO bonds will finance improvements to water and sewer infrastructure.

For fiscal 2021, major revenue sources are tracking well, and in some cases, such as real estate taxes, have already exceeded budgeted amounts as of September 2021. The borough expects to receive approximately \$1.62 million in American Rescue Plan (ARP) allocation in 2021, in addition to almost \$600,000 in combined relief funds from the state and county in 2020. Officials plan to utilize the ARP allocation to help finance capital projects related to this issue as well as new development and sewer projects throughout the borough.

### **Very strong budgetary flexibility**

The borough had an available fund balance in fiscal 2020 of 29% of operating expenditures, or \$3.9 million. The borough previously reported a nominally low \$173,000 general fund reserves, or about 2% of expenditures, in fiscal 2014. The improved reserves reflect ongoing strong operating results achieved over the past several audited years

despite the operating deficit in fiscal 2020.

We expect that the borough will likely maintain or continue to increase its reserves given the balanced 2021 budget and no significant noted budgetary pressures as its revenue mix continues to perform well relative to expectations.

### **Very strong liquidity**

In our opinion, Wilkinsburg's liquidity is very strong, with total government available cash at 41.0% of total governmental fund expenditures and 6.6x governmental debt service in 2020. In our view, the borough has strong access to external liquidity if necessary.

We believe the borough's strong access to external liquidity is supported by debt issuances, including GO bonds. Although the state allows for what we view as permissive investments, we believe the borough does not have aggressive ones, with the majority primarily invested in PLGIT.

### **Strong debt and contingent liability profile**

With the 2021 GO bonds, the borough's net direct totals approximately \$11 million. In our view, Wilkinsburg's debt and contingent liability profile is strong. Total governmental fund debt service is 6.2% of total governmental fund expenditures, and net direct debt is 63.0% of total governmental fund revenue. Approximately 85.8% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The borough does not have any additional debt plans within the next two years.

Pension and other postemployment benefit (OPEB) liabilities:

- We do not view pension liabilities as an immediate credit risk for Wilkinsburg based on our opinion of adequate plan funding and currently affordable contributions; however, we think there is a risk of costs escalating based on expected cost adjustments and assumptions.
- The borough made its full annual required contribution and is expecting to continue to do so.
- OPEBs are funded on a pay as you go basis, with a net OPEB liability of \$517,566 as of fiscal year end 2020.

Wilkinsburg administers the following single-employer defined-benefit pension plans as of Dec. 31, 2020:

- Police Pension Plan: 85.1% funded with a \$2.4 million net pension liability
- General Employees Pension Plan: 93.3% funded with a \$223,626 net pension liability
- Firemen Pension Plan: 100.1% funded with a \$2,151 net pension asset

Wilkinsburg's combined required pension and actual OPEB contributions totaled 3.2% of total governmental fund expenditures in 2020. The borough made its full required pension contribution in 2020.

With a discount rate of 7.0%, both the police and general employees plans are at risk for potential cost escalations due to market volatility; however, we view the firemen plan's 6.0% discount rate as conservative to mitigate such risk. We believe that the borough could withstand moderate increases to contributions without significant pressure on the rating, given the size of contributions relative to its budget.

## **Strong institutional framework**

The institutional framework score for Pennsylvania municipalities with nonhome-rule is strong.

## **Related Research**

- [Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors](#), April 28, 2020
- [Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs](#), April 16, 2021
- [S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency](#), Sept. 12, 2013
- [Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings](#), Oct. 7, 2019
- [2020 Update Of Institutional Framework For U.S. Local Governments](#)

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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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