



# COMMISSIONERS OF CUMBERLAND COUNTY

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**July 19, 2018**

**FOR IMMEDIATE RELEASE**

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## ***Cumberland County's "AAA" Bond Rating Affirmed by S&P***

**Carlisle, Pa.** – The Cumberland County Board of Commissioners received notification recently that Cumberland County's "AAA" rating was affirmed and has been assigned S&P Global Rating "AAA" to its upcoming bond issuance. The "AAA" rating is the highest rating issued by S&P. Cumberland County has been "AAA" rated since 2008 and is one of only four Pennsylvania counties that receive the highest rating.

The highlights from S&P's report are that the County has a

- Strong economy
- Very strong management, with "strong" financial policies and practices
- Strong budgetary performance
- Very strong budgetary flexibility
- Very strong liquidity
- Very strong debt and contingent liability position
- Strong institutional framework

The Board of Commissioners approved moving forward with refinancing the 2011 bond issue in June. The S&P rating is an important step in the refinancing process. The "AAA" rating improves the County's position during the sale/auction of the bond. The auction is scheduled for July 25<sup>th</sup>. The County is expecting to save at least \$400,000.

Attached is a copy of the Standard & Poor's report.

The Cumberland County Board of Commissioners is the executive governing body for administration of County programs, personnel, property and facilities. The Board is responsible for implementing the County's

budget, as well as overseeing contracts and expenditures, in order to provide the highest level of service to the citizens of Cumberland County, while maintaining vigilance with taxpayer dollars. To learn more about the work the Commissioners are completing for County residents, visit [www.ccpa.net/commissioners](http://www.ccpa.net/commissioners).

# # #

*Cumberland County is the fastest growing county in the Commonwealth and offers the perfect mix of small town, suburban and rural living. Established in 1750, Cumberland County consistently maintains one of the lowest tax and unemployment rates in the State, while providing exceptional services for its more than 250,000 residents. More information on Cumberland County can be found at [www.ccpa.net](http://www.ccpa.net).*

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## Summary:

# Cumberland County, Pennsylvania; General Obligation

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## Summary:

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### Credit Profile

US\$13.5 mil GO bnds ser 2018 due 05/01/2031

<i>Long Term Rating</i>	AAA/Stable	New
Cumberland Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AAA' rating to Cumberland County, Pa.'s series 2018 general obligation (GO) bonds, and affirmed its 'AAA' rating on the county's outstanding debt. The outlook is stable.

The rating reflects our opinion of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) in Harrisburg-Carlisle;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 59% of operating expenditures;
- Very strong liquidity, with total government available cash at 29.9% of total governmental fund expenditures and 8.6x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.5% of expenditures and net direct debt that is 20.7% of total governmental fund revenue, as well as rapid amortization, with 82.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The bonds are secured by the full faith and credit pledge of the county. We understand bond proceeds will be used to refund the 2011 GO bonds for net present value savings.

Cumberland County's GO bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Based on our criteria, titled "Ratings Above The Sovereign: Corporate and Government Ratings – Methodology and Assumptions" (published Nov. 19, 2013, on RatingsDirect), the county has predominately locally derived revenue sources with independent taxing authority and independent treasury management from the federal government.

### **Strong economy**

We consider the county's economy strong. Cumberland County, with an estimated population of 250,042, is in south-central Pennsylvania, adjacent to Dauphin County and 100 miles west of Philadelphia. It is in the Harrisburg-Carlisle MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income of 112% of the national level and per capita market value of \$97,326. Overall, market value grew by 1.7% over the past year to \$24.3 billion in 2017. The county unemployment rate was 3.8% in 2017.

Cumberland County has a diverse employment base with government, health care, higher education, and retail companies. Management is expecting assessed value (AV) to increase approximately 2% in fiscal 2019. Notable commercial economic development includes three projects--the Carlisle Urban Redevelopment Plan, Senate Plaza redevelopment project in East Pennsboro Township, and South Middletown Township development project, which collectively have plans to create approximately 2,000 new jobs.

Management attributes the strong housing market values due to low inventory, along with good school districts and close access to major highways and downtown Harrisburg. Officials report that local economic activity has also led to a continued decrease in the county's unemployment rate over the past few years. The property tax base is very diverse with the 10 leading taxpayers accounting for just 3.1% of total AV.

### **Very strong management**

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management's budgeting practices include using at least three years of historical trend analysis of revenues and expenditures with adjustments made based on internal assumptions for future revenue and cost increases. Financial performance is monitored on a monthly basis with formal budget-to-actual reports provided to the board quarterly. The county uses a combination of zero-based budgeting and line-by-line budgeting approaches.

The county maintains a formal five-year financial plan for projecting operating revenues and expenditures, which is updated annually and reviewed with the commissioners at least twice each year. Management also maintains a long-term 10-year capital plan updated annually. There is a formal investment policy that mirrors state guidelines with holdings and earnings reported quarterly. Additionally, the county maintains its own formal debt management policy that complies with state guidelines. Highlights include structuring of finances to retire 50% of total principal outstanding within ten years, along with avoiding the use of tax anticipation notes (TANS), swaps, and derivatives.

The county also maintains a formal fund balance policy to keep an unassigned fund balance of no less than 70 days of expenditures. This balance is the minimum required to meet cash-flow needs. However, management generally targets having at least 100 days of expenditures and if it were to fall below this level, the county would develop a plan to replenish. The fund balance target levels were chosen to maintain cash flow and be able to sufficiently react to emergency situations. The county is current meeting its reserve target.

### **Strong budgetary performance**

Cumberland County's budgetary performance is strong, in our opinion. The county had operating surpluses of 6.6% of expenditures in the general fund and 2.8% across all governmental funds in fiscal 2017. Our assessment accounts for

the fact that we expect budgetary results could remain pressured in the near term.

The county has posted five consecutive audited general fund surpluses from fiscal years 2012 to 2017. It historically budgets conservatively, adopting a deficit budget and ending the year with surplus results.

Fiscal 2017 results include adjustments for recurring transfers and one-time capital expenditures. After adjustments, the county posted a general fund surplus of \$4.3 million which management attributes to cost-saving measures. For expenditures, salaries and benefits remained relatively flat while revenues increased from real estate taxes and departmental fees. The majority of general fund revenue is from property taxes (69%), followed by county charges (18%).

For fiscal 2018, the county anticipates ending the year with at least balanced operations. Expenditure increases included prison medical contract increases and operational costs for the courts. Additionally, the county has been purchasing licensing for a paperless timekeeping, attendance, and management system, which is anticipated to lower maintenance costs.

For fiscal 2019, the county anticipates close to balanced operations (after initially planning for a deficit of approximately \$400,000). According to management, the positive revision reflects positive growth in AVs, along with moderation of growth in prison population. Budgetary pressures include a one-time cost of replacing election machines estimated to cost approximately \$4 million. We anticipate management will continue to proactively address any budgetary pressures.

### **Very strong budgetary flexibility**

General fund reserves increased by 73.4% to \$38.5 million in fiscal 2017 from \$22.2 million in fiscal 2012. Fund balance levels are expected to remain stable as the county is anticipating balanced operations for fiscal years 2018 and 2019. Additionally, it will pursue any grant funding that becomes available for the \$4 million election machine replacement. However, even if the county uses fund balance for that purpose, we anticipate reserve levels will remain at levels we consider very strong over the two-year outlook window.

### **Very strong liquidity**

In our opinion, Cumberland County's liquidity is very strong, with total government available cash at 29.9% of total governmental fund expenditures and 8.6x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

Cumberland County has been a regular issuer of GO debt over the past 15 years, which supports its strong access to external liquidity. The county does not currently have investments we consider permissive or aggressive since its investments mainly include U.S. government debt securities. It also does not have any private-placed debt. We expect the county to maintain a very strong liquidity profile.

### **Very strong debt and contingent liability profile**

In our view, Cumberland County's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.5% of total governmental fund expenditures, and net direct debt is 20.7% of total governmental fund revenue. Approximately 82.4% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

With this issuance, the county will have about \$35 million in total direct debt. It has no definitive debt plans over the next two years, but is exploring upgrading its 9-1-1 Emergency Telephone System. The national standard for interoperable digital two-way radio communications is Project 25 (P25). The total project cost would be approximately \$22 million.

Cumberland County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 2.4% of total governmental fund expenditures in 2017. The county made its full annual required pension contribution in 2017.

The county provides pension benefits through its Employees Retirement Trust Fund, a single-employer defined-benefit pension plan. The plan is currently 100% funded.

Cumberland County also sponsors and administers a plan for OPEBs. The OPEB Plan, referred to as Cumberland County Retiree Medical Plan, is a single-employer plan that covers health insurance benefits where retirees and beneficiaries may continue to participate in the county's health coverage. In 2018, the county moved to self-insurance for medical coverage. Stop-loss insurance is provided through an insurance company to ensure that catastrophic claims or numerous claims do not upset the financial reserves of the self-funded plan.

Retirees opting to participate pay a premium amount that is less than the county's actual cost to provide health care (also known as an implicit rate subsidy). The premium amount is a blended rate for covering both active and retired OPEB Plan members. To be eligible to receive the benefits from the subsidy, a retiree must be receiving annuity payments from the Cumberland County Retirement Plan. The county commissioners established the plan and have the ability to amend it at any time. The county is under no statutory or contractual obligations to provide OPEB benefits.

## **Outlook**

The stable outlook reflects S&P Global Ratings' opinion of the county's very strong economic profile that is supported by its deep and diverse employment base, and benefits from its participation in the Harrisburg-Carlisle MSA. We anticipate that the county will have at least balanced operations in fiscal years 2018 and 2019, and we expect management will continue to proactively address any budgetary pressures and maintain the county's very strong budget flexibility and liquidity. As a result, we do not anticipate changing the county's rating within the two-year outlook period. However, should budgetary pressures contribute to a weaker budgetary performance and materially lower reserves to levels no longer commensurate with peers, we could lower the rating.

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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