

RatingsDirect®

Summary:

Tarentum Borough, Pennsylvania; General Obligation

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Credit Profile

Tarentum Boro GO (AGI) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Upgraded
Tarentum Boro GO (BAM) <i>Unenhanced Rating</i>	BBB(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings raised its underlying rating (SPUR) on Tarentum Borough, Pa.'s general obligation (GO) debt to 'BBB' from 'BBB-' based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- The outlook is stable.
- The upgrade reflects various action management has taken to improve its financial position, including raising utility rates and its general purpose millage, seeking additional grants and tightening up its expenditures, with plans to continue to make these adjustments in the future.

Security

The borough's full-faith-and-credit GO pledge secures the GO debt.

Credit overview

In our view, the borough's recent actions leading to expected increases in available reserves, above-average GCP per capita and county PCPI as a percentage of the nation, and manageable debt and liability profile support the general creditworthiness. Somewhat offsetting those strengths are the general fund's significant reliance on recurring transfers from the electric fund, a history of nominally low cash balances across governmental and proprietary funds, below-average local incomes, and its small population.

The borough manager took over in August 2022 and has taken various actions to reduce the general fund's reliance on electric fund transfers. These include taking a closer look at expenses, seeking grants when possible, renegotiating certain contracts, and increasing revenue. Water rates were raised to make the water fund self-sufficient. In fiscal 2024, management adopted a strategy to raise utility rates 3%-5% annually. The council approved a 0.5 general millage increase effective in fiscal 2025, the borough's first such increase in over two decades and which is anticipated to bring in an additional \$70,000 in general fund revenue. Management plans to continue with general millage increases, albeit at smaller rates in future years to lessen the general fund's reliance on electric fund transfers. The fiscal 2024 general fund budget was balanced at \$4.3 million after a \$1.5 million transfer in from the electric fund. Management reports that the general fund finished fiscal 2024 with a surplus between \$400,000 and \$500,000. The fiscal 2025 general fund

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budget is balanced at \$4.7 million after a \$1.5 million transfer in from the electric fund. Management expects the general fund will likely post close to break-even operations and is expected to remain stable.

Tarentum is in Allegheny County in the Pittsburgh metropolitan statistical area, 20 miles north of Pittsburgh.

Credit fundamentals supporting the rating include Tarentum's:

- Limited, mostly built-out local economy limiting our view of growth prospects with access to Pittsburgh, with wealth and incomes that remain well below average compared with higher-rated peers.
- Reliance on the electric fund to balance the budget, which consistently accounts for more than 20% of general fund revenue. Electric fund transfers were the general fund's leading revenue source in fiscal 2023, making up 35% of revenue. Management reports the electric fund had a surplus of \$637,304 in fiscal 2024 and is expected to have increases between \$300,000 and \$400,000 annually after transfers out to the general fund. We recognize the borough had \$674,475 of assigned fund balance in its capital reserve fund at the end of fiscal 2023, which is considered available for operations and is anticipated to grow significantly in fiscal 2024. Therefore, although reserves will remain nominally thin, we expect they will be healthy on a percentage basis. In addition, the borough has significant additional budgetary flexibility as its general purpose millage remains well below its 30-mill cap and management reports that one levied mill would bring the general fund approximately \$140,000 in annual revenue.
- History of manageable cost for debt and liabilities. We expect current debt and liability costs will likely remain manageable as Tarentum has no additional debt plans for at least the next two years.
- Pension and other postemployment benefit liabilities that are not an immediate source of credit pressure, given the current-funded ratios and relatively small required annual contributions. The borough's contributions are built on adequate assumptions, with a discount rate of 5.25% for the Pennsylvania Municipal Retirement System (PMRS) plan and a 6.75% discount rate for the Police Pension Plan.
- Budgeting practices that look back three years at revenue and expenditures, while relying on electric fund transfers to support the general fund. Monthly budget-to-actual reports are provided to the council. The borough has a formal investment policy which adheres to commonwealth guidelines and the council receives annual investment reports. A formal capital plan and reserve policy were implemented in 2024. The capital plan is updated at least two times a year and has a timeline for projects that looks out up to 20 years. Management reports the reserve policy was put into place to have between three- and four-months' worth of operational expenses in the borough's main funds. It currently does not prepare a formalized long-term financial plan and there is no formal debt policy. In August 2022, the borough was the victim of a phishing scam that cost it \$140,000. Since then, management is taking measures to mitigate cyber risk.
- For more information on our institutional framework assessment for Pennsylvania municipalities, see "Institutional Framework Assessment: Pennsylvania Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We view environmental, social, and governance factors as neutral within our analysis.

Outlook

The stable outlook reflects S&P Global Ratings' opinion that management will likely continue to make necessary budgetary adjustments to maintain a balanced budget, supported by recurring transfers in from the electric fund, which

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have been stable. In our opinion, increasing available reserves provides further rating stability. Therefore, we do not expect to change the rating during the two-year outlook.

Downside scenario

We could lower the rating if liquidity were to weaken, ongoing power-fund transfers into the general fund were interrupted, or structural imbalances were to emerge.

Upside scenario

We could raise the rating further if management actions were to result in a substantially increased available fund balance sustained at stronger nominal levels and if Tarentum were to become less susceptible to electric departmental operation fluctuations.

Table 1

Tarentum Borough, Pennsylvania--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	3.70
Economy	4.0
Financial performance	4
Reserves and liquidity	3
Management	5.00
Debt and liabilities	2.50

Table 2

Tarentum Borough, Pennsylvania--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.			128	127
County PCPI % of U.S.			109	109
Market value (\$000s)		103,229	102,294	96,481
Market value per capita (\$)		24,249	23,701	22,569
Top 10 taxpayers % of taxable value				9.7
County unemployment rate (%)		3.3	4.2	5.8
Local median household EBI % of U.S.		58	61	60
Local per capita EBI % of U.S.		61	68	69
Local population		4,257	4,316	4,275
Financial performance				
Operating fund revenues (\$000s)		2,620	2,621	2,613
Operating fund expenditures (\$000s)		3,792	3,502	3,343
Net transfers and other adjustments (\$000s)		1,072	880	729
Operating result (\$000s)		(100)	(1)	(1)
Operating result % of revenues		(3.8)		
Operating result three-year average %		(1.3)	0.1	0.1
Reserves and liquidity				
Available reserves % of operating revenues		19.2		

Table 2

Tarentum Borough, Pennsylvania--Key credit metrics (cont.)

	Most recent	2023	2022	2021
Available reserves (\$000s)		502		
Debt and liabilities				
Debt service cost % of revenues			10.2	2.4
Net direct debt per capita (\$)	1,617	1,667	1,691	919
Net direct debt (\$000s)	6,885	7,095	7,300	3,927
Direct debt 10-year amortization (%)	41	38		
Pension and OPEB cost % of revenues		5.0	11.0	10.0
NPLs per capita (\$)		126	172	
Combined NPLs (\$000s)		537	741	

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

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