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Summary:

Forest Hills Borough, Pennsylvania; General Obligation

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Summary:

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Credit Profile

Forest Hills Boro GO (AGM)

Unenhanced Rating

AA(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating on Forest Hills Borough, Pa.'s general obligation (GO) debt two notches to 'AA' from 'A+' based on Standard & Poor's local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

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

The rating reflects the following factors for the borough:

- We consider Forest Hills' economy adequate with projected per capita effective buying income at 110% of the national level. Market value is \$47,500 per capita in fiscal 2014. Forest Hills is in Allegheny County, which had 6.5% unemployment in 2013. Assessed value (AV) totaled \$308 million in fiscal 2013 following 0.5% AV growth in fiscal years 2012 and 2014.
- In our opinion, budgetary flexibility is very strong. Audited fiscal year-end Dec. 31, 2013, reserves were \$854,000, or 16.5% of expenditures, adjusted for routine transfers. Management is projecting a surplus at fiscal year-end 2014, adding to fund balance. Meanwhile, we understand the fiscal 2015 budget formulation process is underway.
- In our view, overall budgetary performance has been strong with 7% and 11% surpluses for the general fund and total governmental funds, respectively, in fiscal 2013. Management expects to end fiscal 2014 with another surplus based on the most recent estimates. Property taxes generate 70% of general revenue followed by income taxes at 22%.
- Supporting Forest Hills' finances is liquidity we consider very strong with available cash at 36.8% of total governmental funds expenditures and 545% of debt service. We believe Forest Hills has strong access to external liquidity.
- We view Forest Hills' management as strong with "good" financial management practices under our Financial Management Assessment methodology, indicating that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include management's monthly budget-to-actual reports and investment reports. Forest Hills has a formal capital plan and formal investment policy.
- In our opinion, Forest Hills' debt and contingent liabilities profile is very strong with debt service at 6.7% of total governmental funds expenditures and net direct debt at 53% of total governmental funds revenue. We understand Forest Hills does not currently have additional debt plans. We consider principal debt amortization rapid with officials planning to retire 83% over 10 years. Forest Hills operates two defined-benefit pension plans for public safety and nonuniformed employees. As of the Jan. 1, 2011, valuation, the public safety plan was 79.8% funded and the nonuniformed plan was 78.89% funded. In fiscal 2013, pension contributions were 5.1% of expenditures. Forest

Hills funds other postemployment benefits (OPEB) through pay-as-you-go financing; OPEB accounted for 1.2% of expenditures in fiscal 2013.

- We consider the Institutional Framework score for Pennsylvania boroughs strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Forest Hills' very strong liquidity and very strong budgetary flexibility, which Standard & Poor's expects management to maintain through conservative budget management. We do not expect to change the rating further within the two-year outlook period because we expect management to maintain its structural balance. Although unlikely to occur within the outlook period, if budgetary performance and available reserves were to deteriorate significantly, however, we could lower the rating. We believe upward rating potential is currently limited.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

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

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