

RatingsDirect®

Summary:

DuBois, Pennsylvania; General Obligation; Note

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Credit Profile

US\$11.0 mil GO bonds ser 2024 A due 05/01/2040

Long Term Rating A-/Stable New

US\$2.0 mil grant anticipation nts ser 2024B due 05/01/2027

Long Term Rating A-/Stable New

Credit Highlights

- S&P Global Ratings assigned its 'A-' long-term rating to the City of DuBois, Pa.'s \$11 million series 2024A general obligation (GO) bonds and \$2 million series 2024B GO grant anticipation notes, based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024.
- The outlook is stable.

Security

The GO bonds and notes are secured by the city's full faith, credit, and taxing power pledge without limitation as to rate or amount.

DuBois intends to use the proceeds from the series 2024A GO bonds to refinance bank loans and the 2024B GO notes outstanding for capital improvements.

Credit overview

Our rating on DuBois reflects high reserves that help to offset some of the weaknesses in the local economy, limited modified cash financial disclosures, and generally lacking management policies and practices. Recent headlines reporting accusations of criminal activity from former management have not materially affected the city's finances, and we recognize the current management team's steps to add multiple levels of review to add transparency. We believe that if stronger management practices had been in place, the likelihood of the control issues could have been reduced. The economy is showing signs of growth, with a new charter school facility, new restaurant openings, and a new housing development, with 85 homes potentially being built. The consolidation of Sandy Township and DuBois is expected to be complete by 2026, and could add some efficiencies of scale that might include water systems just outside of the combined city. The foundations for further growth are being laid with utilities completed on a 400-acre industrial park and sewer work in the design phase for a 200-acre commercial development, as well as the possibility of a large residential project. Management expects assessed value growth will be just under 10%, but could top 40% over the next 10 years due to general growth in the area.

Fiscal 2022 (Dec. 31) reported a large cash deficit following a large surplus. This was a timing issue for completed capital projects and the high average result over the past three years might provide a clearer picture of financial performance due to the cash accounting. Similarly, the already-high reserve levels have been volatile, and have grown

significantly over the past three years. We expect some deterioration as management reports a \$4 million deficit for fiscal 2023 due in part to wastewater treatment, a park project, and legal affairs; however, much of this has been reimbursed in fiscal 2024 by grants. It has been reported that there is a \$1 million deficit for fiscal 2024, but this is actually a correction to a budgeted surplus, and DuBois now expects the budget will break even. We expect fiscal 2024 reserves will be approximately \$4.8 million.

The rating further reflects our view of the city's:

- Rural community located in central Clearfield County, in the Allegheny Mountains northeast of Pittsburgh. DuBois (and Sandy Township) is the area hub for outdoor recreational activities, but also includes a concentration of industry that includes carbon and graphite production facilities. The largest employer is Penn Highlands Healthcare, which is expanding its East facility and is approved for a new specialty pharmacy;
- Budgeting practices that include a limited review of the past five years. There are no formal long-term financial or capital plans, no investment or debt policies in place, and reserves are well above the informal target of 25% of expenditures. With recent headlines noting accusations of criminal activity from former management, and concurrent turnover, the current management team has implemented many reviews and transparency-improving practices that include hiring an auditing firm to review and verifying best practices, monthly evaluations, and budget analysis every two weeks tracking revenues and expenditures, with a published list of each expense;
- Operating results that could be volatile due to modified cash accounting that has recognized revenues and expenses in different fiscal years, but that have been positive overall over the past three years. Management expects a \$4 million deficit in fiscal 2023 due to capital projects (audit expected within the next month), with much of the deficit reimbursed in fiscal 2024 so that fiscal 2024 reserves are approximately \$4.8 million and expected to hold at that level. The final 2025 budget is break-even;
- Consistently high per capita debt burden and exposure to unfunded pension liabilities that could pressure future budgets, but current costs that are low for now. Due to cash-based reported pension information, contribution escalation risk exposure from the two single-employer pension plans might be present. Management reports no near-term bonding plans or significant capital needs; and
- For more information on our institutional framework assessment for Pennsylvania municipalities, see "Institutional Framework Assessment: Pennsylvania Local Governments," published Sept. 9, 2024, on RatingsDirect.

Environmental, social, and governance

DuBois's governance structure, financial transparency, and risk oversight are governance risk factors that affected our analysis, as evidenced by a lack of segregation of duties and concentration of information with key individuals, combined with a lack of regularly communicated financial transparency across with all key stakeholders that we believe contributed to reconciliation and accounting errors that appear to have since been addressed. Environmental and social factors were neutral in our analysis.

Outlook

The stable outlook reflects our expectation that DuBois will maintain balanced fiscal operations, supported by stronger management and monitoring practices, and high cash reserves providing sufficient operating flexibility.

Downside scenario

We could take a negative rating action if budgetary pressure causes a material decrease in available cash reserves for a persistent period.

Upside scenario

If the city's economy improves and management practices show consistent monitoring and transparency with refined policies, we could take positive rating action.

Table 1

DuBois, Pennsylvania --credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	3.43
Economy	5.0
Financial performance	3
Reserves and liquidity	1
Debt and liabilities	2.50
Management	5.65

Table 2

DuBois, Pennsylvania--key credit metrics				
	Most recent	2022	2021	2020
Economy				
GCP per capita % of U.S.	55	55	56	56
County PCPI % of U.S.	80	80	84	83
Market value (\$000s)	412,402	412,629	411,363	411,696
Market value per capita (\$)	55,896	54,981	55,635	55,733
Top 10 taxpayers % of taxable value	16	--	--	--
County unemployment rate (%)	3.7	5.0	6.5	8.9
Local median household EBI % of U.S.	64	75	76	--
Local per capita EBI % of U.S.	67	81	79	--
Local population	7,378	7,505	7,394	7,387
Financial performance				
Operating fund revenues (\$000s)	--	8,877	10,987	8,097
Operating fund expenditures (\$000s)	--	13,888	12,611	8,715
Net transfers and other adjustments (\$000s)	--	1,692	7,250	1,023
Operating result (\$000s)	--	(3,319)	5,626	405
Operating result % of revenues	--	(37.4)	51.2	5.0
Operating result three-year average %	--	6.3	--	--
Reserves and liquidity				
Available reserves % of operating revenues	--	65.8	83.4	43.7
Available reserves (\$000s)	--	5,844	9,164	3,538
Debt and liabilities				
Debt service cost % of revenues	1.2	1.2	27.2	2.3
Net direct debt per capita (\$)	2,821	2,665	2,826	2,277

Table 2

DuBois, Pennsylvania--key credit metrics (cont.)				
	Most recent	2022	2021	2020
Net direct debt (\$000s)	20,813	19,998	20,896	16,823
Direct debt 10-year amortization (%)	72.0	67.0	66.0	61.0
Pension and OPEB cost % of revenues	--	--	--	--
Net pension liabilities per capita (\$)	836	836	462	514
Combined net pension liabilities (\$000s)	6,277	6,277	3,418	3,795

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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