

East Goshen Municipal Authority Township of East Goshen, PA

Executive Summary

Kroll Bond Rating Agency (KBRA) has affirmed the long-term rating of AAA with a stable outlook on East Goshen Municipal Authority (the Authority), Pennsylvania's General Obligation (GO) and GO guaranteed debt. The Authority's GO guaranteed debt consists of Guaranteed Sewer Revenue Notes which are first payable from the Authority's Sewer System revenues and are ultimately guaranteed by the full faith and credit tax pledge of East Goshen Township, PA (the Township). The KBRA rating is based on East Goshen Township's full faith and credit general obligation guarantee, backed by its unlimited taxing power, on scheduled principal and interest due on GO and GO guaranteed debt.

East Goshen Township's direct debt, which includes all GO and GO guaranteed debt, was approximately \$15.9 million, as of December 31, 2014. This rating is based on KBRA's [U.S. Local General Obligation Rating Methodology](#), published on May 31, 2012. KBRA's evaluation of the long-term credit quality of local general obligation bonds focuses on four key rating determinants:

- Governance and Management Structure and Policies,
- Municipal Resource or Economic Base,
- Debt and Additional Continuing Obligations, and
- Financial Performance and Liquidity.

In the process of affirming the rating on the Township's outstanding debt, as described above, KBRA reviewed current information on East Goshen Township's operations in the context of the four key rating determinants outlined above and spoke with Township management. For a full discussion of the Key Rating Determinants please see KBRA's initial report on the Township, [Township of East Goshen, PA Guaranteed Sewer Revenue Notes, 2013 Series A-D](#), published on October 17, 2013.

Security Provisions

The General Obligation and GO Guaranteed Notes were issued in connection with borrowings from the Delaware Valley Regional Financing Authority (DelVal), a loan program which provides financing for Pennsylvania municipalities and school districts. The Notes are guaranteed by the Township's full faith and credit general obligation guarantee, backed by its unlimited taxing power on parity with Notes issued in 1998 and 2008. The Authority's Guaranteed Sewer Revenue Notes are first payable from the Township's annual lease rental payments to be paid to the Authority under the Lease Agreement. The Township makes lease payments out of its Sewer Revenue Fund from sewer rates and charges, and these lease payments are also secured by a full faith and credit obligation of the Township. Under state statutes, the Township has the power to levy ad valorem property taxes on all taxable property in the Township, without limitation as to rate or amount, to pay debt service on the Notes.

The Authority is a component unit of the Township and was formed by the Township to finance its sewage collection and treatment system. Under the Lease Agreement between the Township and the Authority the Authority owns the sewer system. The system is leased back to the Township and the Township is responsible for operating and maintaining the system and setting sewer charges to support operating costs and pay annual lease rental payments to the Authority for debt service on the Notes.

Key Rating Strengths

- Strong financial management policies and procedures, which include frequent reporting of budget-to-actual performance and reporting financial results on a modified accrual basis.
- High level of income per capita at approximately 180% of the Commonwealth and U.S. average in 2013.
- Access to the employment markets of Philadelphia, Wilmington, and surrounding Chester County
- Formalized five-year capital improvement plan that requires the Township to maintain sufficient capital reserves to replace all property, plant, and equipment assets
- Available fund balance in FY 2014 was \$4.8 million, or 54.2% of General Fund expenditures.
- Strong liquidity position in FY 2014 with 324 days cash on hand

Key Rating Concerns

- Funded ratio in the regional police pension plan was below 63.4% as of January 1, 2013.
- General Fund Revenue base is somewhat dependent on earned income taxes.

Rating Summary

KBRA views the Township's governance and management structure as extremely strong. In addition to a comprehensive budget process, East Goshen Township provides timely disclosure, maintains documented policies on reserves, and has a comprehensive five year capital improvement plan. The Township also releases a monthly report that monitors budget to actual performance within its governmental and enterprise funds. Beginning in FY 2014, the Township also maintains an additional operating reserve accounted for within its General Fund that is equal to a minimum of 5.0% of General Fund revenues.

East Goshen Township, with a population of 18,111, is a 10.1 square mile suburban community located 30 miles west of Philadelphia along the Delaware River. The Township, while primarily residential, has access to a diverse economic and employment base given its proximity to major metropolitan areas including Philadelphia, Wilmington, and the surrounding Chester County, PA. A number of large employers including Vanguard Group Inc. and Siemens Healthcare are headquartered in Chester County, PA. The Township is nearly built out and consists of real estate primarily constructed during the 1970's to 1990's. KBRA views East Goshen Township's municipal resource base as very strong due to income per capita and educational attainment at levels higher than the Commonwealth and U.S., and low poverty levels. In addition, the Township's effective management practices, relatively low levels of debt, and strong financial performance further support the KBRA rating of the Township.

Despite a flat assessed value, KBRA continues to view the Township's municipal resource base as very strong. East Goshen Township's top ten taxpayers compose only 7.8% of assessed value, while full value per capita, as of 2013 was \$134,942, which KBRA views as very strong. The Township has experienced consistent and steady population growth, which has increased by more than 7.7% since 2000. The Township's income per capita of \$50,423 is more than 175% of both the Commonwealth and the U.S. levels.

Additionally, East Goshen Township continues to maintain a low to moderate debt burden. The majority of the Township's debt is in the form of fixed rate loans from the Delaware Valley Regional Finance Authority. KBRA considers the Township's overall debt per capita at \$5,055 and overall debt as a percentage of 2013 full market property valuation at 3.7% to be moderate.

East Goshen Township also administers two defined benefit pension plans, for fire and non-uniform employees. The Township has contributed 100% of its annual minimum municipal obligation (MMO), most of which is funded from state aid. The Township has a shared interest in an additional defined benefit pension plan for uniformed police officers, for which it makes 100% of the required MMO. The fire, non-uniform, and police pension plans have funded ratios of 91.2%, 133.7%, and 63.4% respectively. East Goshen Township's total fixed costs in FY 2014, defined as debt service, pension payments, and pay-as-you-go OPEB payments, were \$1.8 million and represented 17.7% of total governmental expenditures.

KBRA continues to view East Goshen Township's financial performance and liquidity as very strong. In FY 2014, the Township ended the year with an operating surplus of \$1.0 million. Due to the creation of an operating reserve within the Township's General Fund, unassigned fund balance declined by 29.0% from \$6.3 million in FY 2013 to \$4.8 million in FY 2014. This level of unassigned fund balance is equal to 54.2% of FY 2014 General Fund expenditures. KBRA still considers the Township's available fund balance, relative to its General Fund expenditures, to be very strong. As of August 31, 2015, FY 2015 is projected to end with an operating surplus of \$243,171. FY 2015 revenues are projected to be higher than budgeted primarily because of the unexpected sale of a large commercial property within the Township, which generated higher than budgeted Real Estate Transfer Tax revenues. FY 2015 expenditures are largely in line with budgeted expectations. The Earned Income Tax (EIT), a 1.0% tax on gross income, provides 47.0% of General Fund revenues with real estate taxes providing an additional 20.2%.

Based on a review of the four rating determinants included in the methodology, KBRA has assigned a rating to each determinant, summarized as follows.

- Governance, Management Structure and Policies: AAA
- Municipal Resource Base: AAA
- Debt and Additional Continuing Obligations: AAA
- Financial Performance and Liquidity Position: AAA

Outlook:

The stable outlook reflects KBRA's expectation that the Township will continue to manage its financial operations to maintain a structurally balanced budget, while maintaining strong reserve levels and liquidity.

In KBRA's view, the following factors may contribute to a downgrade of the rating:

- Trend of operating deficits in the General Fund.
- Significant deterioration in General Fund reserve levels.

Key Rating Determinants

Rating Determinant 1: Governance and Management Structure and Policies

KBRA views East Goshen Township's governance and management structure as very strong and consistent with a AAA rating determinant rating. The Township has a formal budget process and has a history of accurately forecasting revenues and expenditures historically. Township administration has not changed since the time of KBRA's last report. In FY 2015, the Township continued to make a number of capital improvements to administration offices and buildings, parks, and other Township infrastructure.

In FY 2013, the Township implemented a written reserve policy, requiring fund balance to be equal to a minimum of 20% of operating expenditures. Additionally, the Township also created an operating reserve fund. The operating reserve, currently \$2.5 million, must represent at least 5% of annual General Fund revenues. In the event that the Township must draw on this reserve, the Township Board of Supervisors is required to approve any appropriation to the General Fund. Additionally, East Goshen Township formalized a five year capital improvement plan. Updated annually, the capital improvement plan budgets for and specifies the source of funding for all capital upgrades. KBRA views both of these changes as credit positives. Furthermore, East Goshen Township formalized its policies on maintaining capital reserves. In FY 2013, the Township transferred net revenues of its General Fund to the capital reserve fund such that the capital reserve fund has sufficient financial resources to cover the full replacement costs of all Township-owned capital assets. This transfer is consistent with actions taken by the Township in previous years. In addition, the Township uses an accumulated depreciation formula to ensure that the capital reserve fund has sufficient assets to replace in full any capital purchased after FY 2013.

Rating Determinant 2: Municipal Resource Base

KBRA views the Township's municipal resource base as very strong and consistent with a AAA rating determinant rating. This rating level is primarily driven by a stable population, high per capita income, diverse tax base, and very high full market value. Proximity to major employment hubs in Philadelphia, Wilmington, and surrounding Chester County offers the Township relatively stable employment and low poverty rates. In addition, East Goshen Township's level of educational attainment is more than double the Commonwealth of Pennsylvania and the United States. Per data from the Pennsylvania State Tax Equalization Board (STEB), East Goshen Township's full market value in 2013 was \$2.44 billion while full value per capita declined slightly from \$136,340 in 2012 to \$134,932 in 2013. KBRA views the Township's full value per capita as very high.

The Township's population has grown 7.7% from 2000 to 2013, which is lower than the growth rate of Chester County, but is higher than Pennsylvania's 2.7% growth rate statewide in the same period of time. KBRA views East Goshen Township's income per capita as very high, at 121% of the county and 177% and 179% of the Commonwealth and United States respectively. The Township's unemployment rate continues to decline from 6.2% in 2010 to 4.1% in July 2015, which is in line with the Commonwealth and stronger than the United States.

	East Goshen Township		Chester County		Pennsylvania			United States			
	2013	Chg from 2010	2013	Chg from 2010	East Goshen Township as % of Chester County	2013	Chg from 2010	East Goshen Township as % of Pennsylvania	2013	Chg from 2010	East Goshen Township as % of United States
Population	18,111	0.7%	509,468	1.9%		12,731,381	0.9%		316,128,839	2.2%	
Age Dependency Ratio ^{1,2}	73.4%	-3.2	60.9%	0.2	120.6%	59.8%	-0.6	122.8%	59.8%	0.9	122.8%
Population with B.A. Degree or higher ²	57.1%	2.6	49.1%	-0.6	116.3%	27.5%	1.1	207.6%	29.6%	1.4	192.9%
Poverty Level ²	3.5%	-1.5	7.0%	0.8	50.0%	13.3%	0.9	26.3%	15.8%	0.5	22.2%
Income per capita	\$50,423	6.5%	\$41,741	4.0%	120.8%	\$28,502	5.4%	176.9%	\$28,184	8.2%	178.9%

Source: U.S. Census Bureau is used as the source in order to provide a consistent comparison among different units of government.

¹ Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

² Year over year change shown as nominal change in percentage points

East Goshen Township's full market value of the property tax base has shown an average annual increase of 2.5% since 2009, with a slight decline in 2013. During this same time period, the Township's assessed valuation has been largely flat, averaging a 0.3% annual decline. KBRA considers East Goshen Township's tax base as diverse with the top ten taxpayers accounting for 7.8% of assessed value in 2014. Major local employers include CTDI (telecommunications company) and Syntheses (division of Johnson & Johnson that manufactures medical equipment). Major companies including Vanguard Group Inc. and Siemens Healthcare are also headquartered in Chester County, PA. Township tax collections averaged over 99% during the past five years.

Rating Determinant 3: Debt and Additional Continuing Obligations

KBRA continues to view the Township's overall debt burden as low to moderate and as being consistent with a AAA rating determinant rating, based on KBRA's view of low to moderate debt per capita. In FY 2014, East Goshen Township's direct and indirect debt per capita was approximately \$5,055 which KBRA considers moderate. Overall debt to full value remains low at 3.7% while debt service as a percent of total governmental expenditures is also low at 7.6%. Amortization of direct debt is lower than prior years beginning in FY 2014. This is due to the issuance of the Series 2013 Guaranteed Sewer Notes in FY 2013 which increased the Township's direct debt outstanding and extended the debt service schedule. Inclusive of this additional debt, KBRA considers direct debt amortization to be average, with 53.8% of principal to be retired within 10 years and 94.1% retired within 20 years.

Overall Direct and Overlapping Debt

As of December 31, 2014 the Township's total outstanding direct debt was \$15.9 million. KBRA's total direct debt calculation of East Goshen Township includes the Township's debt of \$5.2 million and the Municipal Authority's lease rental debt of \$10.6 million. With the exception of the Township's share of the cost of construction of a shared regional police building with Westtown Township, approximately \$1.0 million outstanding, all of the Township's debt is in the form of fixed rate loans from the Delaware Valley Regional Finance Authority. The Township's total overlapping debt of \$75.6 million represents its allocable portion of Chester County, PA and West Chester School District's total debt outstanding. Management states that there are no current plans to issue further debt.

East Goshen Township Debt Ratios	
Fiscal Year 2014	
KBRA Metric	Ratio
Overall direct and indirect debt per capita	\$5,055
Overall debt as % of 2014 full market value of property	3.7%
Debt amortization within 10 years	53.8%
Debt amortization within 20 years	94.1%
Direct debt service as a % of total governmental expenditures	7.6%

Source: East Goshen Township Audited Financial Statements FY 2014

Township Pension Plans and OPEB Liability

East Goshen Township has two pension plans for its fire, and non-uniformed employees along with a shared interest of a defined benefit pension plan for police. As of January 1, 2013 the Township’s share of the police pension plan, consisting of 36 members, had a funded ratio of 63.4% and the fire pension plan, consisting of 10 members, had a funded ratio of 91.2%. The Township’s non-uniform pension plan, consisting of 35 members, has been closed off to new entrants since December 31, 2010. The Township no longer contributes to the plan and it remains well funded at 133.7%. In FY 2013, the Township’s annual pension cost for its two active defined benefit plans was \$938,675 which represents 9.2% of total FY 2014 governmental expenditures. It is important to note, however, that state aid covers the entire minimum municipal obligation (MMO) for East Goshen Township’s defined benefit pension plans.

The Regional Police Commission, which administers the joint police pension plan between East Goshen Township and Westtown Township, also administers medical and prescription drug benefits for eligible retired employees and spouses (OPEB) through a defined benefit plan. The Township’s annual actuarial required contribution (ARC) payment in FY 2014 was \$80,619, or approximately 0.8% of total governmental expenditures. The Township’s OPEB contribution was reduced by more than 75.0% from FY 2013 to FY 2014. The primary drivers of this decline were a renegotiated labor contract with police officers that included a higher deductible health plan which reduced Township health benefit payments, as well as a correction to the calculation that amortizes the Township’s unfunded OPEB actuarial accrued liability. The calculation was corrected to appropriately account for restricted funds set aside by East Goshen Township, Westtown Township, and the Regional Police Commission for OPEB benefits. Township management plans to request a new study of its OPEB benefits based on changes resulting from GASB 45. Beginning in FY 2016, the Township expects its annual required OPEB contribution to increase by approximately 60.0%, or approximately \$130,000. East Goshen Township does not offer or provide any additional OPEB benefits.

Without consideration of state aid for pension payments, East Goshen Township’s total fixed costs in FY 2014, defined as debt service, pension payments, and pay-as-you-go OPEB payments, were \$1.8 million and represented 17.7% of total governmental expenditures.

Delaware Valley Finance Authority

There are certain swap-related risks allocable to the Township in that DelVal can assess any swap termination costs of the program on a proportionate basis to East Goshen Township. The swap agreements with the various swap counterparties include rating downgrade triggers for automatic termination for the counterparties and DelVal. As of September 30, 2015, the aggregate mark-to-market

termination value allocable to the Township, in the event that all DelVal swaps were terminated, would be a positive \$696,238.

Rating Determinant 4: Financial Performance and Liquidity

KBRA views the financial position of East Goshen Township as very strong and consistent with a AAA rating determinant rating. This rating determinant reflects the Township’s history of operating surpluses, consistent growth of available fund balance, and historically balanced budgets. The Township’s operations fared well during the most recent recession, with operating surpluses ranging from 6.1% to 24.3% of total General Fund expenditures. East Goshen Township’s operating results reflect conservative budgeting and a history of accurate revenue and expenditure projections.

FY 2014 Operations

The General Fund ended FY 2014 with an operating surplus of \$1.0 million, or approximately 11.2% of total General Fund expenditures. After declining 9.7% between FY 2012 and FY 2013 due to statutory changes in tax collection procedures, Earned Income Tax (EIT) revenues, a percentage tax on gross income based on an individual’s place of residence, remained level in FY 2014 and totaled \$4.7 million. EIT continues to serve as the largest source of General Fund revenues, at 47.0% in FY 2014. Going forward, management expects that EIT revenues will come in as budgeted.

Total General Fund revenues increased year over year in FY 2014 by 4.9% while expenditures increased by 8.8%. The increase in revenues was largely driven by increased property and real estate transfer tax collections. Expenditure growth was driven by wage increases, primarily related to public safety. After transfers, the total fund balance increased by 9.4% to \$7.4 million. Due to the creation of an operating reserve within the Township’s General Fund, unassigned fund balance declined by 29.0% from \$6.3 million in FY 2013 to \$4.8 million in FY 2014. This level of unassigned fund balance is equal to 54.2% of FY 2014 General Fund expenditures.

General Fund FY 2012-FY 2014			
Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis)			
	2014	2013	2012
General Fund Revenue	\$9,928,637	\$9,465,554	\$10,040,568
<i>percent change</i>		4.9%	-5.7%
General Fund Expenditures	\$8,925,769	\$8,205,183	\$8,075,532
<i>percent change</i>		8.8%	1.6%
Surplus (Deficit) from Operations	1,002,868	1,260,371	1,965,036
Total Other Financing Sources (Uses)	(\$362,990)	(\$931,525)	(\$337,553)
Net Change in Fund Balance	639,878	328,846	1,627,483
Total Fund Balance	\$7,436,793	\$6,796,915	\$6,468,069
Nonspendable	\$90,253	\$18,845	\$54,000
Unassigned	\$4,840,923	\$6,263,062	\$6,414,069
Unassigned Fund Balance as a % of General Fund Expenditures	54.2%	76.3%	79.4%

Source: East Goshen Township Audited Financial Statements FY 2012 - FY 2014

FY 2015 Projections

East Goshen Township’s management team provides its Board of Supervisors and the general public a monthly report that monitors its budget to actual performance. As of August 31, 2015, both General Fund revenues and expenditures are higher than anticipated. Total General Fund expenditures are \$57,177 over budget, which is primarily driven by a \$202,686 positive variance in public works expenditures due to the

costs of resurfacing and plowing Township roads. Revenues are over budget by \$446,188 due to the unexpected sale of a large commercial property within the Township, which generated higher than budgeted Real Estate Transfer Tax revenues. East Goshen Township is projected to end FY 2015 with a \$243,171 surplus in its General Fund.

Liquidity Position

As of December 31, 2014, the Township's cash position in its governmental funds totaled just over \$10 million. This equates to over 408 days cash, based on General Fund expenditures which KBRA views as a very strong liquidity position.

Bankruptcy Assessment

It is KBRA's understanding that to be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), an entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code and must be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. It is KBRA's understanding that the Authority is a municipal authority and a body corporate and politic under the laws of Pennsylvania. Pennsylvania law does not include provisions permitting the Authority to file a Chapter 9 petition. While KBRA understands that Pennsylvania law includes provisions permitting "municipalities" and "political subdivisions," both as defined under State law, to file a Chapter 9 petition after seeking and receiving the permission of the Commonwealth, the applicable definitions of "municipality" and "political subdivision" do not include a municipal authority, such as the Authority. KBRA understands that such authorization would require new action by the Pennsylvania State legislature.

KBRA further understands that with respect to the Township, the Township qualifies as a "municipality" under the Bankruptcy Code. With respect to specific state authorization, Act 47 of the Commonwealth of Pennsylvania, known as the "Distressed Municipalities Act," governs the process, and thus the ability of the Township to declare bankruptcy under the Federal Bankruptcy Code. Act 47 includes specific conditions under which a municipality may file a municipal debt adjustment action pursuant to the Bankruptcy Code. Act 47 also contains provisions and circumstances under which a municipality may be declared to be in "financial distress," making it eligible for interest-free loans, grants, and/or administrative assistance from the State Department of Community and Economic Development (DCED). The DCED would have the authority to recommend a plan to increase taxes or other sources of revenues, reduce services, or reschedule obligations and the Township would only be permitted under Pennsylvania law to file a Chapter 9 petition if it has sought and received the permission of the DCED to file such a petition. Thus, assuming the Township meets the conditions provided under Pennsylvania law to file a Chapter 9 petition, and meets the other eligibility requirements of Bankruptcy Code Section 109, KBRA understands that it would be permitted to file a Chapter 9 petition.

Conclusion:

Overall, KBRA has affirmed the long-term rating of AAA with a stable outlook on East Goshen Municipal Authority (the Authority), Pennsylvania's general obligation (GO) and GO guaranteed debt. The KBRA rating is based on East Goshen Township's full faith and credit general obligation guarantee, backed by its unlimited taxing power, on scheduled principal and interest due on GO and GO guaranteed debt.

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Related Publications:

- [General Obligation Bonds Series 2013-A and 2013-B](#)
- [U.S. Local Government General Obligation Rating Methodology](#)

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