

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 Guaranteed Sewer Revenue Notes, 2013 Series A-D. The KBRA rating is based on East Goshen Township's (the Township) full faith and credit general obligation guarantee, backed by its unlimited taxing power, on scheduled principal and interest due on the Notes. This rating applies to all of the Township's general obligation (GO) and GO guaranteed debt. East Goshen's direct debt, which includes all general obligation and guaranteed debt, is approximately \$16.9 million, as of December 31, 2013. 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's operations in the context of the four key rating determinants outlined above. For a full discussion of the Key Rating Determinants please see the prior report, [East Goshen Municipal Authority, PA Guaranteed Sewer Revenue Notes 2013 Series A-D](#), published on October 17, 2013.

Security

The Notes were issued in connection with a borrowing from the Delaware Valley Regional Financing Authority (DeVal), 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.
- Available fund balance in FY 2013 was \$6.3 million or 76.3% of General Fund expenditures.
- High level of income per capita at approximately 170% of the state and U.S. average in 2013.
- Good access to the employment markets of Philadelphia, Wilmington, and surrounding Chester County.
- Liquidity position is very strong in FY 2013 with 445 days cash based on General Fund expenditures.
- Formalized five year capital improvement plan that requires the township to maintain sufficient capital reserves to replace all property, plant, and equipment (PP&E) assets.

Key Rating Concerns

- Funded ratio in its regional police plan was below 75% as of January 1, 2014.
- General Fund Revenue base somewhat dependent on earned income taxes.

Rating Summary

East Goshen Township, with a population of 18,076, is a 10.1 square mile residential community located in the suburbs 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. A number of large employers including Vanguard Group Inc. and Siemens Healthcare are headquartered in Chester County. The Township is nearly 90% built out and consists of real estate primarily constructed during the 1970's to 1990's. KBRA views East Goshen's municipal resource base as very strong due to income per capita and educational attainment at levels higher than the state and U.S., and low levels of poverty. 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.

KBRA continues to view East Goshen Township's financial performance and liquidity as very strong. In FY 2013, the Township ended the year with an operating surplus of \$1.26 million. Per management's plan, East Goshen's unassigned fund balance was drawn down 2.4% to \$6.3 million in FY 2013 to support various capital projects. This level of unassigned fund balance is equal to 76.3% of 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, 2014, FY 2014 is projected to end with an operating surplus of \$386,463. FY 2014 revenues are projected to be higher than budgeted due to modest growth in earned income taxes, building permits, and cable franchise fees. FY 2014 expenses are projected to be over budget primarily because of the costs associated with the harsh winter experienced by many municipalities in the northeast region of the United States. The Earned Income Tax (EIT), a 1% tax on gross income, provides 50.4% of General Fund revenues with real estate taxes providing an additional 21%.

KBRA views the Township's governance and management structure as extremely strong. In addition to a comprehensive budget process, East Goshen 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 of 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% of General Fund revenues.

Despite a flat assessed value, KBRA continues to view the Township's municipal resource base as very strong. East Goshen's top ten taxpayers compose only 7.8% of assessed value while full value per capita is \$135,203, which KBRA views as very strong. The Township has experienced consistent and steady population growth, more than 7.5% since 2000 and income per capita of \$47,819 is 170% of both the Commonwealth and United States. Additionally, East Goshen 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 \$5,356 and overall debt as a percentage of 2013 full market property valuation at 4% 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 also participates in a shared defined benefit plan that provides medical and prescription drug benefits for eligible retired police and spouses (OPEB). This plan is funded on a pay-as-you-go basis and the Township makes its full proportional share of the actuarially required contribution (ARC). Non-uniform and fire employees do not receive OPEB benefits. East Goshen's total fixed costs in FY 2013, defined as debt service, pension payments, and pay-as-you-go OPEB payments, were \$1.9m and represented 21.5% of total governmental expenditures.

Outlook: Stable

The stable outlook reflects KBRA's expectation that the Township will continue to manage its financial operations to maintain a structurally balanced budget and operating surpluses, 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 extremely strong and consistent with an AAA rating. The Township has a formal budget process and has accurately forecasted revenues and expenditures historically. Township administration has not changed since the time of KBRA's last report. In FY 2014, the Township made a number of capital improvements, including installing a

geothermal heating, ventilation, and air conditioning (HVAC) system, repairing Township parking facilities, and upgrading various public works and parks & recreation infrastructure.

In FY 2014, the Township implemented a 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 \$500,000, 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. In addition, the Township uses an accumulated depreciation formula to ensure that the capital reserve fund has sufficient assets to replace any capital purchased after 2013 at the end of their useful lives.

Rating Determinant 2: Municipal Resource Base

KBRA views the Township’s municipal resource base as very strong and consistent with an AAA 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’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 \$135,203 in 2013. KBRA views the Township’s full value per capita as very high.

The Township’s population has grown 7.5% from 2000 to 2012, which is less than the growth rate of Chester County but is greater 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 114% of the county and 169% of the state and United States. The Township’s unemployment rate continues to decline from 6.2% in 2012 to 5% in July 2014, which is in line with the state and stronger than 6.2% for the United States.

	East Goshen Township		Chester County		East Goshen as % of Chester County	Pennsylvania		East Goshen as % of PA	U.S.		East Goshen as % of U.S.
	2012	% Chg from 2011	2012	% Chg from 2011		2012	% Chg from 2011		2012	% Chg from 2011	
Population	18,076	0.1%	499,548	0.8%		12,699,589	-0.3%		313,914,040	0.7%	
Age Dependency Ratio ¹	73.3%	-0.8%	60.5%	0.4%	121.1%	59.7%	0.7%	122.7%	59.0%	0.3%	124.3%
Population with B.A. Degree or higher ²	55.7%	0.0%	48.3%	0.4%	115.4%	27.0%	1.3%	205.9%	28.5%	1.0%	195.5%
Poverty Level	3.8%	-14.7%	6.4%	5.3%	59.8%	12.7%	1.1%	30.1%	14.5%	1.4%	26.5%
Income per capita	\$47,819	0.1%	\$42,020	-0.1%	113.8%	\$28,190	1.3%	169.6%	\$28,051	0.5%	170.5%

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 Percent of the population aged 25 and over.

East Goshen’s full market value of the property tax base has shown an average annual increase of 2.5% since 2009, albeit 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 2013. Major local employers include CTDI (telecommunications company) and Syntheses (division of Johnson & Johnson and is a medical equipment manufacturer). Major companies including Vanguard Group Inc. and Siemens Healthcare are also headquartered in Chester County. Current 2014 tax collections, as of August 31, 2014, are at 98% and 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 an AAA rating, based on KBRA’s view of low to moderate debt per capita. In FY 2013, East Goshen Township’s direct and indirect debt per capita was \$5,356 which KBRA considers moderate. Overall debt to full value remains low at 4% while debt service as a percent of total governmental expenditures remains moderate at 8.5%. Amortization of direct debt is considered by KBRA to be above average, with 66% of principal to be retired within 10 years and nearly 99% retired within 20 years.

Overall Direct and Overlapping Debt

As of December 31, 2013 the Township’s total outstanding direct debt was \$16.9 million. KBRA’s total direct debt calculation of East Goshen includes the Township’s debt of \$5.8 million and the Municipal Authority’s lease rental debt of \$11.1 million. With the exception of the Township’s share of the cost of construction of a shared regional police building with Westtown Township, approximately \$1.1 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 \$79.8 million represents its allocable portion of Chester County and West Chester School District’s total debt outstanding. Management states that there are no near term plans to issue further debt.

East Goshen Township’s Debt Ratios	
KBRA Metric	Ratio
Overall direct and indirect debt per capita	\$5,356
Overall direct and indirect debt as % of 2013 full market value of property	4.0%
Debt amortization within 10 years	65.7%
Debt amortization within 20 years	100.0%
Direct debt service as a % of total governmental expenditures	8.5%

Source: Delaware Valley Regional Finance Authority and Pennsylvania State Tax Equalization Board

Township Pension Plans and OPEB Liability

East Goshen 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 \$836,742 which represents 9% of total FY 2013 governmental expenditures. It is important to note, however, that state aid covers the entire minimum municipal obligation (MMO) for East Goshen’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 2013 was \$364,369, or approximately 4% of total governmental expenditures. The Township does not offer or provide any additional OPEB benefits.

Without consideration of state aid for pension payments, East Goshen's total fixed costs, defined as debt service, pension payments, and pay-as-you-go OPEB payments, was \$1.9 million representing 21.5% of total governmental expenditures in FY 2013.

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. The swap agreements with the various swap counterparties include rating downgrade triggers for automatic termination for the counterparties and DelVal. As of August 29, 2014, the aggregate mark-to-market termination value allocable to the Township, in the event that all DelVal swaps were terminated, would be a positive \$936,387.

Rating Determinant 4: Financial Performance and Liquidity

KBRA views the financial position of East Goshen Township as very strong and consistent with an AAA rating. The rating reflects the Township's history of operating surpluses, consistent growth of available fund balance, and historically structured 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 and good financial operations continued in FY 2013. East Goshen's operating results reflect conservative budgeting and a history of accurate revenue and expenditure projections.

FY 2013 Operations

The General Fund ended FY 2013 with an operating surplus of \$1.26 million, or approximately 15% of total General Fund expenditures. Despite a 9.7% decline from FY 2012, the Earned Income Tax (EIT) continues to serve as the largest source of General Fund revenues, at 50.4% in FY 2013. Management states that EIT revenues declined in FY 2013 due to statutory changes in tax collection procedures yet remained over budget. Going forward, management expects that EIT revenues will come in as budgeted.

Total General Fund revenues declined 5.7% while expenditures increased 1.6% in FY 2013. The decline in revenue was largely driven by EIT collections, as stated earlier. Despite this operational challenge, total fund balance increased by \$328,846 while unassigned fund balance declined \$6,263,062 due to a planned draw down for capital projects.

General Fund FY 2009-FY 2013 Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis)									
	2013		2012		2011		2010		2009
General Fund Revenue	\$9,465,554		\$10,040,568		\$9,042,252		\$8,782,139		\$8,401,838
<i>percent change</i>		-5.7%		11.0%		3.0%		4.5%	
General Fund Expenditures	8,205,183		8,075,532		7,930,384		7,971,625		7,920,456
<i>percent change</i>		1.6%		1.8%		(0.5%)		0.6%	
Surplus (Deficit) from Operations	1,260,371		1,965,036		1,111,868		810,514		481,382
Total Other Financing Sources (Uses)	(931,525)		(337,553)		(274,359)		(328,870)		(395,561)
Net Change in Fund Balance	328,846		1,627,483		837,509		481,644		85,821
Total Fund Balance	\$6,796,915		\$6,468,069		\$4,840,586		\$4,003,077		\$3,521,433
Nonspendable	\$533,853		\$54,000		\$7,565				
Unassigned	\$6,263,062		\$6,414,069		\$4,833,021		\$4,003,077		\$3,521,433
Available Fund Balance as a % of General Fund Expenditures	76.3%		79.4%		60.9%		50.2%		44.5%

Source: East Goshen Township FY 2009-FY 2013 Annual Financial Reports

FY 2014 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, 2014, both General Fund revenues and expenditures are higher than anticipated. Growth in expenditures is primarily driven by a \$214,382 positive variance in public works expenditures due to the costs associated with the harsh winter in 2014, as well as lower than expected donations to fund parks and recreation events. General Fund revenues are over budget due to a high volume of real estate activity, resulting in larger than anticipated real estate transfer tax revenues. Based on revenues and expenditures as of August 31, 2014, East Goshen is projected to end FY 2014 with a \$386,463 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 444 days cash, based on General Fund expenditures which KBRA views as a very strong liquidity position.

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Related Publications:

- [Guaranteed Sewer Revenue Notes, 2013 Series A-D Rating Report](#)
- [U.S. Local General Obligation Rating Methodology](#)

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