

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 Township ("the Township") and 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 payable from the Authority's Sewer System revenues and ultimately guaranteed by the full faith and credit tax pledge of 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 \$14.8 million, as of December 31, 2015. This rating is based on KBRA's [U.S. Local General Obligation Rating Methodology](#). 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](#).

Security Provisions

The General Obligation (GO) and GO Guaranteed Notes were issued in connection with borrowings 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, 2008, and 2013. The Authority's Guaranteed Sewer Revenue Notes are 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. These lease payments are also secured by the Township's full faith and credit pledge. Under state statute, 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 was formed by the Township to finance its sewage collection and treatment facilities. Under the Lease Agreement between the Township and the Authority, the Authority owns the sewer system and has leased it to the Township. The Township is responsible for daily operations and is required to pay rental payments to the Authority equal to monthly debt service on the Guaranteed 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 national average in 2014.
- Access to the employment markets of Philadelphia, Wilmington, and surrounding Chester County.
- A five-year capital improvement plan that requires the Township to maintain sufficient capital reserves to replace all property, plant, and equipment assets.
- High levels of available fund balance in fiscal year 2015 that represents 51.7% of General Fund expenditures.
- Strong liquidity position in FY 2015 with 220 days cash on hand based on General Fund expenditures.

Key Rating Concerns

- 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 releases a monthly report that monitors budget to actual performance within its governmental and enterprise funds. It also maintains an operating reserve account for its General Fund, which held an amount equal to 26.2% of General Fund revenues in fiscal year 2015.

East Goshen Township, with a population of 18,139 is a suburban community located 30 miles west of Philadelphia. The Township is 10.1 square miles and primarily residential. Township residents have access to a diverse economic and employment base given their proximity to major metropolitan areas including Philadelphia, Wilmington, and surrounding Chester County. A number of employers including Vanguard Group Inc. and Siemens Healthcare are headquartered in Chester County. 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. The Township's effective management practices, relatively low levels of debt, and strong financial performance further support the rating.

East Goshen Township's top ten taxpayers comprise only 7.9% of assessed value. As of 2015, full value per capita was \$136,242, which KBRA views as very strong. The Township has a stable population, which has increased slightly by 0.9% since 2010. The Township's income per capita of \$51,842 is more than 175% of both the commonwealth and national levels.

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 of \$4,703 and overall debt as a percentage of 2015 full market property valuation of 3.5% to be moderate.

The Township administers two defined benefit pension plans for fire and non-uniform employees. The Township has contributed 100% of its annual minimum municipal obligation (MMO) in fiscal year 2015. The Township also 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 96.8%, 113.0%, and 63.4% respectively. East Goshen Township's total fixed costs in fiscal year 2015, defined as debt service, pension payments, and pay-as-you-go other post-employment benefits (OPEB) payments, were \$1.8 million and represented 18.3% of total governmental expenditures.

KBRA continues to view East Goshen Township's financial performance and liquidity as very strong. In fiscal year 2015, the Township ended the year with an operating surplus of \$284,000. The General Fund's unassigned fund balance is equal to 51.7% of fiscal year 2015 General Fund expenditures. KBRA considers the Township's available unassigned fund balance, relative to its General Fund expenditures, to be very strong. As of August 31, 2016, fiscal year 2016 is projected to end with an operating deficit of \$106,085. The Earned Income Tax (EIT) provides 49.1% of General Fund revenues with real estate taxes providing an additional 21.1%.

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. The Township has a formal budget process and a history of accurately forecasting revenues and expenditures. The Township administration has not changed since the time of KBRA's last report. The Township has stated that it will continue to make a number of capital improvements to its parks and overall 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. The Township Board of Supervisors is required to approve any appropriation of the reserve. East Goshen Township has a formalized five-year capital improvement plan that is updated annually. The capital improvement plan budgets for and specifies the source of funding for all capital upgrades.

Furthermore, East Goshen Township has a formal policy regarding its capital reserve fund and ensures that the fund is at a sufficient level to replace in full any capital assets purchased after FY 2013. Management has stated that the capital reserve fund has grown and has sufficient financial resources to cover the full replacement costs of all Township-owned capital assets.

Based on the foregoing, KBRA views the Township’s governance and management structure and policies as being consistent with a AAA Rating Determinant rating, which reflects the Townships formal policy on reserves, formal budget process, and history of accurately forecasting revenues and expenditures.

Rating Determinant 2: Municipal Resource Base

KBRA views the Township’s municipal resource base as very strong based on 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 helps offer the Township a relatively stable employment and low poverty levels. In addition, East Goshen Township’s level of educational attainment is more than double the commonwealth and the nation. East Goshen Township’s full market value in 2015 was \$2.5 billion. Full value per capita increased slightly from \$135,620 in 2014 to \$136,242 in 2015. KBRA views the Township’s full value per capita as very high.

The Township’s population has grown 7.7% from 2000 to 2014, which is lower than the growth rate of Chester County, but higher than Pennsylvania’s 2.7% statewide growth rate during the same period of time. Since 2010, the Township’s population has remained relatively stable at 0.9% growth which is lower than the rest of the county and the commonwealth at 2.6% and 1.2%, respectively. KBRA views East Goshen Township’s income per capita as very high, at 121.1% of the county and 179% of both the commonwealth and the nation. The Township’s unemployment rate data was unavailable; KBRA therefore used Chester County’s unemployment information. Chester County’s unemployment continues to decline from 6.2% in 2010 to 4.1% in June 2016, which is lower than both the commonwealth at 5.6% and nation at 4.9%.

	East Goshen		Chester County		East Goshen as % of Chester County	Pennsylvania		East Goshen as % of Pennsylvania	United States		East Goshen as % of United States
	2014	Chg from 2010	2014	Chg from 2010		2014	Chg from 2010		2014	Chg from 2010	
Population	18,139	0.9%	512,784	2.6%		12,758,729	1.2%		318,857,056	3.1%	
Age Dependency Ratio ¹	73.4%	-3.2	60.9%	0.2	120.5%	59.9%	-0.4	122.5%	60.2%	1.3	122.0%
Population with B.A. Degree or higher ²	57.3%	2.8	49.3%	-0.4	116.2%	28.1%	1.7	203.9%	30.1%	1.9	190.4%
Poverty Level ²	3.0%	-2.0	7.4%	1.2	40.5%	13.5%	1.1	22.2%	15.5%	0.2	19.4%
Income per capita	\$51,842	9.5%	\$42,800	6.6%	121.1%	\$28,912	6.9%	179.3%	\$28,889	10.9%	179.5%

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 Year over year change shown as nominal change in percentage points

East Goshen Township’s full market value has grown by 3.6% since 2010 and has grown slightly in 2015. The assessed value has decreased by 1.6% from 2010 through 2014 but has grown slightly in 2015. KBRA considers East Goshen Township’s tax base as diverse with the top ten taxpayers accounting for 7.9% of assessed value in 2015. Major local employers include Communications Test Design Inc., a telecommunications company, and DePuy Synthes, a division of Johnson & Johnson that manufactures medical equipment. Vanguard Group Inc. and Siemens Healthcare are also headquartered in Chester County. The Township has maintained a high level of current year tax collections over the years and was approximately 98.4% as of September 2016.

Based on the foregoing, KBRA views the Township’s municipal resource base as being consistent with a AAA Rating Determinant rating.

Rating Determinant 3: Debt and Additional Continuing Obligations

KBRA continues to view the Township’s overall debt burden as low to moderate. In FY 2015, East Goshen Township’s direct and indirect debt per capita was approximately \$4,703, which KBRA considers moderate. Overall debt to full market value remains low at 3.5% while debt service as a percent of total governmental expenditures is also low at 7.7%. The Township has not issued any new debt since the Series 2013 Guaranteed Sewer Notes in fiscal year 2013. KBRA considers direct debt amortization to be average, with 61.1% of principal to be retired within 10 years and 100% retired within 20 years.

Overall Direct and Overlapping Debt

As of December 31, 2015, the Township’s total outstanding direct debt was \$14.8 million. KBRA’s total direct debt calculation of East Goshen Township includes the Township’s debt of \$4.7 million and the Municipal Authority’s lease rental debt of \$10.1 million. With the exception of \$932,778 outstanding for the construction of a regional police building, all of the Township’s debt consists of fixed rate loans from DelVal. The Township’s total overlapping debt of \$70.5 million represents its allocable portion of Chester County, PA and West Chester School District’s total debt outstanding. Management expressed it may issue additional debt in 2017 or 2018.

East Goshen Debt Ratios	
Fiscal Year 2015	
KBRA Metric	Ratio
Overall direct and indirect debt per capita	\$4,703
Overall debt as % of 2015 full market value of property	3.5%
Debt amortization within 10 years	61.1%
Debt amortization within 20 years	100.0%
Direct debt service as a % of total governmental expenditures	7.7%

*Source: East Goshen Audited Financial Statements FY 2015
Indirect debt is based off of estimates from East Goshen's
Financial Statements*

Township Pension Plans and OPEB Liability

East Goshen Township has two pension plans for its fire, and non-uniformed employees. It also has a shared interest within a defined benefit pension plan for police with Westtown Township. 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 11 members, had a funded ratio of 96.8%. The Township’s non-uniform pension plan, consisting of 32 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 113.7%. In FY 2015, the Township’s annual pension cost for its two active defined benefit plans was \$936,448, which represents 9.7% of total FY 2015 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. As of January 1, 2016, the Township had contributed \$118,338 towards its OPEB obligation or approximately 1.2% of FY 2015 total governmental expenditures. This is an increase of approximately \$38,000 which the Town expected and was prepared for. Management has stated that it no longer expects large spikes in its OPEB contributions in its near future. 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 2015, defined as debt service, pension payments, and pay-as-you-go OPEB payments, were \$1.8 million and represented 18.3% of total governmental expenditures, which KBRA views as moderate.

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 the Township and the other borrowers under the program. The swap agreements with the various swap counterparties include rating downgrade triggers for automatic termination for the counterparties and DelVal. As of August 31, 2016, the aggregated mark-to-market termination value allocable to the Township, in the event that all DelVal swaps were terminated, would be a positive \$555,836.

Based on the foregoing, KBRA considers the Township's debt and continuing obligation profile as being consistent with a AAA Rating Determinant rating

Rating Determinant 4: Financial Performance and Liquidity

KBRA views the financial position of East Goshen Township as very strong based on the Township's history of operating surpluses, large percentage of unassigned fund balance as a percentage of General Fund Expenditures, and strong liquidity levels. East Goshen Township's operating results reflect conservative budgeting and a history of accurate revenue and expenditure projections.

FY 2015 Operations

The General Fund ended FY 2015 with an operating surplus of \$284,000, or approximately 3.1% of total General Fund expenditures. After declining 9.7% between FY 2012 and FY 2013 Earned Income Tax (EIT) revenues, a percentage tax on gross income based on an individual's place of residence, remained level in FY 2015 and totaled \$4.7 million. EIT continues to serve as the largest source of General Fund revenues, at 49% in FY 2015. As of September 29, 2016, management has stated that EIT revenues are up 3.7% from last year.

Total General Fund revenues decreased year over year in FY 2015 by 4.5% while expenditures increased by 3.0%. The decrease in revenues was largely driven by decreases in real estate tax and real estate transfer tax collections. Expenditure growth was driven by increases in public safety, safety and streets, and culture and recreation. After transfers, the total fund balance decreased by 0.9% to \$7.3 million. In fiscal year 2014 the Township established an operating reserve fund with approximately \$2.0 million of unassigned fund balance. The operating reserve fund, which is a component on the General Fund assigned fund balance, is intended to maintain a balance equal to 5% of estimated general fund revenues. In FY 2015 the operating reserve grew by 0.3% to approximately \$2.5 million or 24.9% of total governmental expenditures and 26.2% of General Fund revenues. The Township's level of unassigned fund balance is equal to 51.7% of FY 2015 General Fund expenditures which is well above the Township's required minimum of 20% of operating expenditures and does not include the \$2.5 million within the operating reserve fund.

General Fund FY 2011-FY 2015						
Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis) (\$'000)						
	2015	2014	2013	2012	2011	
General Fund Revenue	\$9,477	\$9,929	\$9,466	\$10,041	\$9,042	
<i>percent change</i>		-4.5%	4.9%	-5.7%	11.0%	
General Fund Expenditures	\$9,194	\$8,926	\$8,205	\$8,076	\$7,930	
<i>percent change</i>		3.0%	8.8%	1.6%	1.8%	
Surplus (Deficit) from Operations	284	1,003	1,260	1,965	1,112	
Total Other Financing Sources (Uses)	(\$348)	(\$363)	(\$932)	(\$338)	(\$274)	
Net Change in Fund Balance	(64)	640	329	1,627	838	
Total Fund Balance	\$7,373	\$7,437	\$6,797	\$6,468	\$4,841	
Nonspendable Fund Balance	\$92	\$90	\$19	\$54	\$8	
Spendable Fund Balance						
Restricted Fund Balance						
Assigned Fund Balance*	\$2,528	\$2,506	\$515			
Committed Fund Balance						
Unassigned Fund Balance	\$4,753	\$4,841	\$6,263	\$6,414	\$4,833	
Unassigned Fund Balance as a % of General Fund Expenditures	51.7%	54.2%	76.3%	79.4%	60.9%	

Source: East Goshen Audited Financial Statements FY 2011 - FY 2015

* Includes Operating Reserve Fund balance beginning in FY 2014

FY 2016 Projections

The Township's management provides its Board of Supervisors and the public a monthly report that monitors its budget to actual performance. As of August 31, 2016, the budget has a negative variance of \$34,727. General Fund expenditures are \$92,376 over budget due to timing of invoices paid and earlier than usual street resurfacing. Revenues are \$57,650 over budget despite EIT revenues being \$151,066 under budget.

Real Estate Property Tax is over budget by \$41,391 due to a large interim payment of \$25,484 received from a commercial property causing the tax to be well over budget for the course of the current fiscal year. The Township adopted the fiscal year 2016 budget with a projected deficit of \$323,184. As of August 2016, the fiscal year end projected deficit has been revised to \$106,085 driven primarily by reductions in budgeted expenditures over the course of the fiscal year.

Liquidity Position

As of December 31, 2015, the Township's cash position in its General Fund totaled \$5.6 million. This equates to 220 days cash, based on General Fund expenditures, which KBRA views as a very strong.

Based on the foregoing, KBRA views the Township's financial performance and liquidity as being consistent with a AAA Rating Determinant rating. This rating level reflects the Township's history of operating surpluses, strong liquidity levels, and a large percentage of unassigned fund balance as a percentage of General Fund expenditures.

Bankruptcy Assessment

KBRA has consulted with external counsel regarding the statutory framework of municipal bankruptcy in the Commonwealth of Pennsylvania. 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, Pennsylvania’s 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:

- [Township of East Goshen, PA Guaranteed Sewer Revenue Notes, 2013 Series A-D](#)

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