

East Goshen Municipal Authority (Township of East Goshen, PA)

Affirmed	Rating	Outlook
General Obligation Debt	AAA	Stable

Methodology:

[U.S. Local Government GO Methodology](#)

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Rating Summary: KBRA has affirmed the long-term rating of AAA with a stable outlook on the Township of East Goshen’s (the Township) general obligation debt and the East Goshen Municipal Authority’s (the Authority) general obligation guaranteed debt. The Authority’s general obligation guaranteed debt consists of sewer revenue notes which are first payable from the Authority’s sewer system revenues and which are ultimately guaranteed by the full faith, credit, and unlimited taxing power of the Township, pursuant to a guarantee agreement between the Authority and the Township. The KBRA rating, which is applied to both the Township’s general obligation debt and the Authority’s general obligation guaranteed debt, is based solely on the Township’s general obligation credit.

The Authority’s GO guaranteed notes are on parity with the Township’s outstanding GO bonds. The 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 Authority is a component unit of the Township and was formed by the Township to finance its sewage and collection treatment center. Pursuant to a lease agreement, the Authority owns the sewer system and has leased it to the Township which requires that the Township pay rents to the Authority equal to the amount of monthly debt service on the GO guaranteed notes. The Township makes annual lease rental payments out of its sewer revenue fund from sewer rates and charges. The lease payments are also secured by the Township’s full faith and credit pledge.

KBRA continues to assess the Township’s management structure and policies as very strong. Procedures pertaining to budget processes are formal. The Township has a history of accurate forecasting both annual revenues and expenditures with year-over-year planning informed by the Township’s 10-year projections. Financial reports are monitored and presented monthly. The Township continues to maintain its formal, written reserve policies requiring the maintenance of both: (i) an operating reserve balance equivalent to at least 5% of annual general fund revenues and (ii) general fund balance equivalent to at least 20% of operating expenditures; both of which KBRA views favorably.

KBRA continues to view the Township’s overall debt burden as low to moderate. In FY2018, overall debt to full market value remains moderate at 3.6%, as does direct debt service at 7.9% of governmental expenditures. The Township has a history of full pension contributions generally in excess of its actuarially determined contribution to its open plans. Fixed costs including debt service, pension contributions, and pay-go OPEB were a manageable 14.0% of governmental expenditures. It is important to note that state aid has historically covered the entire minimum municipal obligation (MMO) for each of the Township’s defined benefit plans.

KBRA continues to view the financial position and liquidity position of the Township as very strong. General fund operations have yielded surpluses the last five fiscal years; general fund balance has increased 10.8% across the same period. The Township’s days cash on hand was a strong 322 in FY2018. The general fund unassigned balance was 59.8% of expenditures, remaining well above the Township’s policy limit. In FY2018, earned income taxes accounted for nearly 46% of revenues, up from 44% in FY2017. General fund revenues through August 2019 had a surplus of \$796 thousand, on cash basis.

KBRA continues to view the Township’s municipal resource base as strong. Socioeconomic indicators remain favorable including income per capita at 172% of the State average. Poverty and unemployment levels remain well below the State average. The population has grown at an average annual rate of 0.2% since 2010. Full market values in the Township have grown at a 1.2% compounded annual growth rate from 2010.

The stable outlook reflects KBRA’s expectation that the Township will continue to achieve structurally balanced operations while preserving the strong level of unassigned general fund reserves and liquidity recorded in recent years. It also reflects KBRA’s expectation that the Authority will continue to pay debt service on the GO guaranteed revenue notes without assistance from the Township.

Key Rating Strengths

- Strong financial management policies and procedures, which include monthly financial reports.
- Very high level of income per capita at approximately 172% of State average.
- Very strong unassigned fund balance at 59.8% of general fund expenditures in FY2018.

Key Rating Concerns

- General fund revenue base is somewhat dependent on earned income taxes.

Drivers for Rating Change

- | | |
|---|---|
| • N/A | + |
| • Trend of operating deficits in the general fund which significantly deteriorate reserve levels. | - |
| • Increase in debt burden. | - |

Rating Determinants (RD)

1. Management Structure and Policies	AAA
2. Debt and Additional Continuing Obligations	AAA
3. Financial Performance and Liquidity	AAA
4. Municipal Resource Base	AAA

Key Ratios

Debt Metrics	
	FY 2018
Overall Direct and Indirect Debt Per Capita	\$5,120
Overall Debt as a % of Full Market Value	3.55%
Debt Amortization Within 10 Years	58%
Fixed Costs as a % of Governmental Expenditures	14.0%

East Goshen Township General Fund Summary Statement of Income, Unassigned Fund Balance, and Liquidity (Modified Accrual Basis)(FYE Dec. 31)					
	2014	2015	2016	2017	2018
Summary Statement of Income					
Revenues	\$ 9,928,637	\$ 9,477,404	\$ 10,073,571	\$ 10,267,474	\$ 9,857,499
Expenditures	8,925,769	9,193,652	9,466,066	9,600,009	9,279,155
Excess (Deficiency) of Operating Revenue Over Expenditures	1,002,868	283,752	607,505	667,465	578,344
Other Financing Sources (Uses)	(362,990)	(348,027)	(367,289)	(309,433)	(380,951)
Net Change in Fund Balance	639,878	(64,275)	240,216	358,032	197,393
Beginning Fund Balance	6,796,915	7,436,793	7,372,518	7,612,734	7,970,766
Ending Fund Balance	\$ 7,436,793	\$ 7,372,518	\$ 7,612,734	\$ 7,970,766	\$ 8,168,159
Unassigned Fund Balance and Liquidity					
Unassigned Fund Balance	4,840,923	4,752,892	5,005,888	5,377,960	5,546,227
as a % of Expenditures	54.2%	51.7%	52.9%	56.0%	59.8%
Cash and Cash Equivalents - GF	5,200,205	5,557,799	3,007,671	1,506,993	1,841,938
as a % of Expenditures	58.3%	60.5%	31.8%	15.7%	19.9%
Cash and Cash Equivalents - Govt Funds	8,984,414	9,347,844	5,053,189	10,581,092	10,343,677
Govt Expenditures	10,118,918	9,965,255	11,053,401	11,675,319	11,719,930
as a % of Expenditures	88.8%	93.8%	45.7%	90.6%	88.3%
DCOH	324	342	167	331	322

For additional information, please see KBRA's [surveillance report](#) dated October 26, 2018.

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