

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

**Issuer: East Goshen Municipal Authority
(Township of East Goshen, PA)**

| Affirmed | Rating | Outlook |
|-------------------------|--------|---------|
| General Obligation Debt | AAA | Stable |

Methodology:

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

[ESG Global Rating Methodology](#)

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Rating Summary: The long-term rating for the East Goshen Municipal Authority (Authority) applies to the Guaranteed Sewer Revenue Notes, Series of 2013 (Notes). The Notes are payable from lease payments received by the Authority from the Township of East Goshen (Township) pursuant to a lease agreement requiring monthly payments equal to monthly debt service requirements on outstanding guaranteed notes. Lease payments are payable first from revenues of the Township’s Sewer Fund, and guaranteed by the Township’s full faith, credit, and unlimited tax pledge pursuant to a guarantee agreement. Under the guarantee agreement, if Sewer Fund revenues are insufficient to fully pay debt service, the Township is required to make up the deficiency. The rating is based solely on the Township’s general obligation credit and reflects strengths inherent to the Township’s general obligation pledge, as well as the Township’s effective management structure, very affordable debt and continuing obligations profile, history of large and consistent financial reserves, and affluent tax base.

The Authority is a self-supporting component unit of the Township created for the purpose of constructing, expanding, and upgrading the Township’s sewer plants and other facilities. Sewer Fund resources have historically supported 100% of debt service requirements on the guaranteed sewer notes and will likely continue to do so, in KBRA’s opinion, based on the history of strong operating performance. KBRA calculates that the Sewer Fund generated cash flow sufficient to provide lease rental (debt service) coverage of 2.65x in 2019, 2.60x in 2020, and 2.38x in 2021. A new rate schedule became effective October 1, 2022 that increased the fixed component of rates by 56.2% to \$55.61 per quarter while leaving the variable component unchanged at \$9.70 per thousand gallons. The increased rates are needed to pay increased charges for sewer flows delivered to the neighboring Township of West Goshen’s sewer system which is undertaking significant capital improvements as well as fund East Goshen sewer infrastructure. KBRA views the Authority’s covenant to assess rates and charges for the Sewer System, sufficient with other unrestricted funds, to fund Sewer System operations and pay debt service obligations, as continuing to provide a strong primary source of payment on the bonds.

The Township’s management structure and policies are strong. Procedures pertaining to budget processes are formal and the Township has a history of accurate revenue forecasting and effective expenditure controls, with year-over-year planning informed by the Township’s 10-year projections. Financial reports are monitored and presented monthly to the Board of Supervisors. The Township continues to maintain a formal, written reserve policy requiring the maintenance of both: (i) an operating reserve balance up to the equivalent of 25% of annual general fund revenues and (ii) general fund balance equivalent to at least 20% of annual revenues. The Township continues to annually update its five-year capital improvement plan.

The Township’s debt and continuing obligations profile is favorable with direct debt of \$15.9 million as of FYE 2021 consisting of \$7.1 million in guaranteed sewer notes and \$8.8 million in general obligation bonds. The Township’s fixed cost burden in FY 2021 was affordable at 10.6% of governmental expenditures reflecting direct and guaranteed debt service costs of \$674,773, pension costs of \$529,989, and OPEB costs of \$72,045.¹ The Township has a history of pension contributions at or exceeding its actuarially determined contribution level and correspondingly well-funded defined benefit pension plans.

Township general fund operations have been favorable over the last five years supporting an increase in unassigned fund balance from 56.0% of expenditures at FYE 2017 to an even stronger 61.4% at FYE 2021. Liquidity is also strong with governmental funds cash and investments at FY 2021 providing 545 days cash on hand relative to total annual governmental expenditures. In FY 2021 earned income taxes accounted for 53.1% of general fund operating revenue with property taxes, the next largest source, accounting for 18.8%. The Township has not raised its property tax millage since 2004. General fund revenues and expenditures have closely tracked budgeted amounts year-to-date through September and the budget is projected to remain balanced through the end of the current fiscal year ending December 31. The Township received \$1.9 million in American Rescue Plan Act (ARPA) funds. Of this amount, \$913 thousand has been utilized for upgrades to the

¹ Pension costs include direct costs for fire and non-uniform as well as allocable costs for non-uniform and police associated with the Westtown-East Goshen Regional Police Department (WEGO), net in each case of State Act 205 receipts. OPEB costs are the allocable share arising from WEGO.



Westtown Way sewer pump station with an additional \$36 thousand used for Township administration technology upgrades. The remaining amount is earmarked for sewer rehabilitation projects at the Hershey’s Mill Estates development.

The Township’s municipal resource base is strong as evidenced by per capita income in 2020 at 172% the State level and full market value (FMV) per capita at \$201,272. FMV grew at a 5.3% compound annual growth rate (CAGR) between 2002 and 2021, well higher than growth of the consumer price index (CPI) which increased at a 2.2% CAGR. Township population has been approximately level over the last decade. Proximity to major employment hubs in Philadelphia, Wilmington, and surrounding Chester County support strong earning power as well as low poverty and unemployment levels. Township level unemployment is not available, but surrounding Chester County’s unemployment rate was below that of the State and nation at 3.5% as of August 2022. The Township’s tax base is diverse with the top 10 taxpayers comprising 11.6% of assessed value in 2021.

The Stable Outlook reflects KBRA’s expectation that the Township will continue to achieve structurally balanced operations while preserving strong unassigned general fund reserves and governmental liquidity. 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 Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Strong financial management policies and procedures, which include monthly financial reporting.
- Very high level of income per capita at approximately 172% of the State average.
- Very strong unassigned fund balance at 61.4% of general fund expenditures at FYE 2021.

Credit Challenges

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

Rating Sensitivities

- | | |
|--------------------------------------------------------------------------------------------------|---|
| ▪ Not applicable. | + |
| ▪ Trend of operating deficits in the general fund that significantly deteriorate reserve levels. | - |
| ▪ Increase in debt burden or significant changes to the Township’s tax base. | - |

Key Ratios

| | |
|---------------------------------------------------------|---------|
| Overall Direct and Indirect Debt Per Capita | \$4,981 |
| Overall Debt as a % of Full Market Value | 3.3% |
| Direct Debt Service as a % of Governmental Expenditures | 5.6% |
| Fixed Costs as a % of Governmental Expenditures | 10.6% |
| Unassigned General Fund Balance as a % of Expenditures | 61.4% |
| Debt Amortization Within 10 Years (as of FYE 2021) | 71.8% |



Rating Determinants (RD)

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

A detailed review of each rating determinant as well as a bankruptcy assessment and ESG management can be found in prior KBRA reports, the most [recent](#) of which is dated October 15, 2021.

Financial and Liquidity Summary

East Goshen Township, PA - Summary Statement of Income, Unassigned Fund Balance, and Liquidity

FYE December 31 (Modified Accrual Basis)

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|------------------------------------------------------------|---------------|--------------|---------------|--------------|---------------|
| Summary General Fund Statement of Income | | | | | |
| Revenues | \$ 10,267,474 | \$ 9,857,499 | \$ 10,065,966 | \$ 9,872,602 | \$ 10,843,750 |
| Expenditures | 9,600,009 | 9,279,155 | 9,649,531 | 9,281,392 | 9,532,960 |
| Excess (Deficiency) of Operating Revenue Over Expenditures | 667,465 | 578,344 | 416,435 | 591,210 | 1,310,790 |
| Other Financing Sources (Uses) | (309,433) | (380,951) | (452,820) | (414,008) | (872,468) |
| Net Change in Fund Balance | 358,032 | 197,393 | (36,385) | 177,202 | 438,322 |
| Beginning Fund Balance | 7,612,734 | 7,970,766 | 8,168,159 | 8,131,774 | 8,308,976 |
| Ending Fund Balance | 7,970,766 | 8,168,159 | 8,131,774 | 8,308,976 | 8,747,298 |
| Unassigned General Fund Balance | | | | | |
| Unassigned General Fund Balance | 5,377,960 | 5,546,227 | 5,458,996 | 5,768,227 | 5,855,875 |
| as a % of Expenditures | 56.0% | 59.8% | 56.6% | 62.1% | 61.4% |
| Liquidity | | | | | |
| General Fund Cash and Cash Equivalents | 1,506,993 | 1,841,938 | 5,247,268 | 8,307,060 | 8,525,039 |
| as a % of Expenditures | 15.7% | 19.9% | 54.4% | 89.5% | 89.4% |
| General Funds Days Cash on Hand | 57 | 72 | 198 | 327 | 326 |
| Governmental Funds Cash and Cash Equivalents | 10,581,092 | 10,343,677 | 13,099,314 | 17,120,979 | 18,050,436 |
| as a % of Expenditures | 90.6% | 88.3% | 88.8% | 125.0% | 149.2% |
| Governmental Funds Days Cash on Hand | 331 | 322 | 324 | 456 | 545 |

Source: Audited Financial Statements and KBRA Calculations

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