

East Goshen Municipal Authority Township of East Goshen, PA

Issuer: East Goshen Municipal Authority
Township of East Goshen, PA

Affirmed **Rating** **Outlook**

General Obligation Notes 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 (the "Authority") applies to the Guaranteed Sewer Revenue Notes, Series of 2013 (the "Notes"). The Notes are payable from lease payments received by the Authority from the Township of East Goshen (The "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 provide a strong primary source of payment on the bonds, in KBRA's opinion, based on the history of strong operating performance. KBRA calculates that the Sewer Fund generated cash flow sufficient to provide strong lease rental (debt service) coverage of 2.60x in 2020, 2.38x in 2021, and 2.79x in 2022.

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 \$14.7 million as of FYE 2022 consisting of \$6.6 million in guaranteed sewer revenue notes and \$8.1 million in general obligation bonds. The Township's fixed costs burden in FY 2022 was affordable at 8.4% of governmental expenditures reflecting direct and guaranteed debt service costs of \$672,577, pension costs of \$334,789, and OPEB costs of \$101,471.¹ The Township has a history of pension contributions at or exceeding its actuarially determined contribution level and correspondingly well-funded defined benefit pension plans.

The Township's financial profile is strong, characterized by consistently large unassigned fund balances and ample liquidity. The general fund realized a \$1.41 million draw down in FY 2022 equivalent to 12.6% of revenues, but the decline was due to a \$1.45 million transfer to the Township's infrastructure fund for non-recurring capital needs. Unassigned fund balance remained ample at FYE 2022 at \$4.4 million or 43.3% of expenditures. Governmental funds liquidity was equivalent to a strong 505 days cash on hand at FYE 2022.

General fund revenues and expenditures have closely tracked budgeted amounts year-to-date as of August 31, 2023, and the budget is projected to remain balanced through the end of the current fiscal year ending December 31. In January 2023, the Township raised the property tax levy from 1.25 mills to 1.75 mills to address long-term inflation possibilities as well as increasing EMS/Fire/Police requests for funding. KBRA estimates that this will raise an additional \$800 thousand or an amount equivalent to approximately 7% of the prior year's revenues. 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 Westtown Way sewer pump station, approximately \$871 thousand was used for sewer rehabilitation project at the Hershey's Mill Estates development, and an

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.



additional \$36 thousand went towards Township administration technology upgrades. The remaining amount of roughly \$80 thousand will be utilized by the Authority for the Caustic Soda project at the Ridley Creek Sanitary Treatment Plant.

The Township's municipal resource base is strong as evidenced by per capita income in 2021 at 157% the State level and full market value (FMV) per capita in 2022 at \$158,349. FMV grew at a 3.8% compound annual growth rate (CAGR) between 2002 and 2022, which outpaced growth of the consumer price index (CPI) of 2.5% over the same period. The Township's proximity to major employment hubs in Philadelphia, Wilmington, and overlapping Chester County supports strong earning power as well as low poverty and unemployment levels. The poverty level in 2021 was 5.7%, well below the State at 11.8% and nation at 12.6%. Township level unemployment is not available, but overlapping Chester County's unemployment rate at 3.5% as of August 2023 was below that of the State and nation at 4.3% and 3.9%, respectively. The Township's tax base is diverse with the top 10 taxpayers comprising 10.1% of assessed value in 2022.

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 157% of the State average and strong FMV per capita at \$158,349.
- Very strong unassigned fund balance at 43.3% of general fund expenditures at FYE 2022.

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	\$4,606
Overall Debt as a % of Full Market Value	2.9%
Direct Debt Service as a % of Governmental Expenditures	5.1%
Fixed Costs as a % of Governmental Expenditures	8.4%
Unassigned General Fund Balance as a % of Expenditures	43.3%
Debt Amortization Within 10 Years (as of FYE 2022)	78.5%



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 review of each rating determinant as well as ESG management can be found in prior KBRA reports, the most [recent](#) of which is dated October 13, 2022.

Financial and Liquidity Summary

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

FYE December 31 (Modified Accrual Basis)

	2018	2019	2020	2021	2022
Summary General Fund Statement of Income					
Revenues	\$ 9,857,499	\$ 10,065,966	\$ 9,872,602	\$ 10,843,750	\$ 11,189,389
Expenditures	9,279,155	9,649,531	9,281,392	9,532,960	10,160,990
Excess (Deficiency) of Operating Revenues Over Expenditures	578,344	416,435	591,210	1,310,790	1,028,399
Other Financing Sources (Uses)	(380,951)	(452,820)	(414,008)	(872,468)	(2,436,642)
Net Change in Fund Balance	197,393	(36,385)	177,202	438,322	(1,408,243)
Beginning Fund Balance	7,970,766	8,168,159	8,131,774	8,308,976	8,747,298
Ending Fund Balance	8,168,159	8,131,774	8,308,976	8,747,298	7,339,055
Unassigned General Fund Balance					
Unassigned General Fund Balance	5,546,227	5,458,996	5,768,227	5,855,875	4,403,147
as a % of Expenditures	59.8%	56.6%	62.1%	61.4%	43.3%
Liquidity					
General Fund Cash and Cash Equivalents	1,841,938	5,247,268	8,307,060	8,525,039	7,375,275
as a % of Expenditures	19.9%	54.4%	89.5%	89.4%	72.6%
General Funds Days Cash on Hand	72	198	327	326	265
Governmental Funds Cash and Cash Equivalents	10,343,677	13,099,314	17,120,979	18,050,436	18,192,144
Governmental Funds Expenditures	11,719,930	14,757,430	13,699,747	12,098,496	13,160,376
as a % of Expenditures	88.3%	88.8%	125.0%	149.2%	138.2%
Governmental Funds Days Cash on Hand	322	324	456	545	505

Source: Audited Financial Statements and KBRA Calculations

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.

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found [here](#). Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

A review of ESG Management can be found in the KBRA [report](#) dated October 15, 2021.

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