

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's (the "Authority") Guaranteed Sewer Revenue Notes (the "Guaranteed Notes") reflects the 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, strong underlying tax base, and ample reserves which provide considerable financial flexibility. While the General Fund (GF) is somewhat dependent on earned income taxes, such concentration is manageable at the current rating level.

The Guaranteed Notes are payable from lease payments received by the Authority from the Township pursuant to a lease agreement requiring monthly payments equal to monthly debt service on outstanding Guaranteed Notes. Lease payments are payable first from revenues of the Township's Sewer Fund, supported by a guarantee of the Township's full faith, credit, and unlimited tax pledge. Under the guarantee agreement, if Sewer Fund revenues are insufficient to fully pay debt service, the Township is required to make up the deficiency. As a result, KBRA's rating on the Guaranteed Notes is based solely on the Township's general obligation credit.

The Authority is a self-supporting component unit of the Township created for the purpose of constructing, expanding, and upgrading sewer plants and other facilities. Sewer Fund resources are a reliable, primary source of payment for the Guaranteed Notes, evidenced by their history of sufficiently covering lease payments without Township tax support. Between FY 2019 and FY 2023, KBRA calculates that Sewer Fund cash flows solidly covered lease rental payments in a range between 2.38x to 2.79x. Coverage at or near this level is expected to continue.

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. Year-over-year planning is 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 GF revenues and (ii) GF 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 FY 2023 direct debt of \$13.6 million including \$6.1 million of Guaranteed Notes and \$7.5 million in General Obligation Bonds. Overlapping debt, which represents the Township's allocable portion of debt from Chester County and West Chester School District, totaled approximately \$63.7 million. Overall direct and overlapping debt represented an affordable 2.7% of full market value (FMV). The Township has a history of pension contributions, inclusive of Act 205 contributions, at or in excess of the actuarially determined contribution level. As a result, defined benefit pension plans remain well-funded. The Township's fixed costs burden was an affordable at 8.4% of governmental expenditures in FY 2023, reflecting direct debt service costs of \$673,491, pension costs of \$369,338, and OPEB costs of \$113,633.¹ Per actuary recommendation, the Minimum Municipal Obligation (MMO) to the Westtown-East Goshen Regional Police Department (WEGO) pension for FY 2024 is budgeted to increase by 76%. As such, the Township's proportional share² of the budgeted MMO (net of Act 205 receipts) is expected to increase to approximately \$654,357. While this will lead to an increase in the Township's overall fixed cost burden, KBRA estimates it will remain affordable at 10.5% of FY 2023 expenditures.

The Township maintains considerable financial flexibility, underpinned by consistently large unassigned fund balances and ample liquidity. Unassigned fund balance at FYE 2023 was \$4.9 million, a solid 45.7% of GF expenditures. Similarly, FYE 2023 liquid governmental funds represented a strong 469 days cash on hand, while GF cash and cash equivalents were a strong 74.6% of annual expenditures. Operating results have been favorable, with the GF generating a surplus of \$798.4 thousand in FY 2023. KBRA notes that the \$1.41 million FY 2022 GF draw down of was primarily driven by a transfer of \$1.45 million to the Township's infrastructure fund for non-recurring capital needs. Despite this transfer, and the resultant decline in fund balance, reserve levels remained strong.

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 Act 205 receipts. OPEB costs are the allocable share arising from WEGO.

² WEGO operates on a PPU based model which splits the cost 44.5%/55.5% Westtown/East Goshen.



FY 2024 budgeted expenditures represent a 7.7% increase over the FY 2023 budget, primarily attributable to increased public safety expenditures. This increase reflects the previously mentioned 76% increase in the police pension MMO and the Township's anticipated larger share of WEGO expenditures resulting from Thornbury Township's³ termination of its service contract. To manage costs, the Township and Westtown have hired a management consulting firm to examine potential staff reductions and are discussing a 50% reduction of required new vehicles as well as changing the current cost split model. The Township is additionally considering the implementation of an EMS tax. KBRA notes that the property tax levy of 1.75 mills for 2024, which was held flat following the 0.5 mill increase in January 2023, is well below the statutory tax levy limit of 14 mills (19 mills with permission of the Court of Common Pleas for the County) and could be tapped to support future operating needs.

The Township's municipal resource base is strong as evidenced by CY 2022 per capita income at 156% of the Commonwealth level and FMV per capita of \$157,068 in CY 2023. FMV has grown at a 3.5% compound annual growth rate (CAGR) between 2003 and 2023, outpacing growth in the consumer price index (CPI, 2.6%) over the same period. The Township's proximity to major employment hubs in Philadelphia, Wilmington, and the surrounding Chester County supports strong earning power as well as low poverty and unemployment levels. The poverty level in CY 2022 was 5.9%, well below the Commonwealth at 11.8% and Nation at 12.5%. Township level unemployment is not available, though the surrounding Chester County unemployment rate of 2.9% (June 2024) was below that of the Commonwealth and Nation at 3.7% and 4.3%, respectively.

The Stable Outlook reflects KBRA's expectation that the Township will continue to achieve structurally balanced operations while preserving solid unassigned General Fund reserves and governmental liquidity. The Outlook also assumes that the Authority will continue to pay debt service on the Guaranteed 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.
- Stable underlying tax base with good commuter access to large, diverse employment centers, supporting high income and wealth levels.
- High level of financial flexibility afforded by ample reserve levels.

Credit Challenges

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

Rating Sensitivities

▪ Not applicable	+
▪ Trend of GF operating deficits leading to sustained deterioration in reserve levels.	-
▪ Increase in debt burden or significant changes to the Township's tax base.	-

Key Ratios

Overall Direct and Indirect Debt Per Capita	\$4,204
Overall Debt as a % of Full Market Value	2.7%
Direct Debt Service as a % of Governmental Expenditures	4.9%
Fixed Costs as a % of Governmental Expenditures	8.4%
Unassigned General Fund Balance as a % of Expenditures	45.7%
Debt Amortization Within 10 Years (as of FYE 2023)	82.0%

³ The Township reports that Thornbury Township represented approximately 10% of calls for service and that the termination of its service contract reduces the coverage area needed by 4 square miles.



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 and the Bankruptcy Assessment can be found in prior KBRA reports, the most [recent](#) of which is dated October 16, 2023.

Financial and Liquidity Summary

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

FYE December 31 (Modified Accrual Basis)

	2019	2020	2021	2022	2023
Summary General Fund Statement of Income					
Revenues	\$ 10,065,966	\$ 9,872,602	\$ 10,843,750	\$ 11,189,389	\$ 12,300,774
Expenditures	9,649,531	9,281,392	9,532,960	10,160,990	10,689,188
Excess (Deficiency) of Operating Revenue Over Expenditures	416,435	591,210	1,310,790	1,028,399	1,611,586
Other Financing Sources (Uses)	(452,820)	(414,008)	(872,468)	(2,436,642)	(813,209)
Net Change in Fund Balance	(36,385)	177,202	438,322	(1,408,243)	798,377
Beginning Fund Balance	8,168,159	8,131,774	8,308,976	8,747,298	7,339,055
Ending Fund Balance	8,131,774	8,308,976	8,747,298	7,339,055	8,137,432
Unassigned General Fund Balance					
Unassigned General Fund Balance	5,458,996	5,768,227	5,855,875	4,403,147	4,886,658
as a % of Expenditures	56.6%	62.1%	61.4%	43.3%	45.7%
Liquidity					
General Fund Cash and Cash Equivalents	5,247,268	8,307,060	8,525,039	7,375,275	7,973,639
as a % of Expenditures	54.4%	89.5%	89.4%	72.6%	74.6%
General Funds Days Cash on Hand	198	327	326	265	272
Governmental Funds Cash and Cash Equivalents	13,099,314	17,120,979	18,050,436	18,192,144	17,732,871
Governmental Funds Expenditures	14,757,430	13,699,747	12,098,496	13,160,376	13,813,059
as a % of Expenditures	88.8%	125.0%	149.2%	138.2%	128.4%
Governmental Funds Days Cash on Hand	324	456	545	505	469

Source: Audited Financial Statements and KBRA Calculations

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.

Environmental Factors

The Township established a Sustainability Advisory Committee in 2018, now the Environmental & Sustainability Advisory Committee (ESAC), which has since created the Native Landscape, Media, and Program Committees. The ESAC worked



with the Township Board of Supervisors to pass a resolution in October 2023 discouraging the use of single-use plastic bags and straws as well as educate local businesses on implementation ideas. The Committee has also made recommendations to promote recycling which have resulted in the Township receiving a \$168,000 grant through The Recycling Partnership to fund the purchase and distribution to residents of 3,300 65-gallon lidded/wheeled recycling bins.



Social Factors

At the present time, East Goshen does not have a formalized program to address stakeholder perspectives on social factors.



Governance Factors

A top priority for East Goshen is to ensure that its cyber security platform is robust and up-to-date, ensuring the protection and integrity of critical Township data. The Township maintains coverage under an existing cybersecurity insurance policy and has taken steps, with the assistance of their I.T. vendor selected as of October 2023, towards signing a new policy through instituting tightened restrictions and security measures. The Township has implemented a number of enhancements including managed threat detection and response systems, security operations center, virus and malicious software protection, managed firewall services, and backup systems in addition to vulnerability and penetration testing and phishing testing/training for employees.

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