

New Issue: Moody's upgrades West Bradford, PA to Aa2

Global Credit Research - 30 Jun 2014

Assigns Aa2 to \$4.2M 2014 GO bonds; township has \$11.5M debt outstanding

WEST BRADFORD (TOWNSHIP OF) PA
Cities (including Towns, Villages and Townships)
PA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series 2014	Aa2
Sale Amount	\$4,200,000
Expected Sale Date	07/15/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, June 30, 2014 --Moody's Investors Service has assigned a Aa2 rating to the Township of West Bradford, PA's \$4.2 million Series 2014 General Obligation Bonds. Concurrently, we have upgraded the township's General Obligation rating to Aa2 from Aa3, affecting approximately \$7 million in previously issued bonds.

The bonds are secured by the township's General Obligation unlimited tax pledge. Proceeds of the current issue will be used to purchase wastewater treatment capacity, build a new park, and build a garage for the township's sanitation vehicles.

SUMMARY RATING RATIONALE

The upgrade to Aa2 from Aa3 incorporates the township's ongoing trend of operating surpluses, which has led to well above-average cash reserves. The rating recognizes the township's moderately sized tax base with strong socio-economic characteristics, modest debt burden, and minimal pension liabilities.

STRENGTHS

Above-average cash reserves

Strong socio-economic characteristics

CHALLENGES

Reliance on potentially economically sensitive income tax revenues

DETAILED CREDIT DISCUSSION

INCOME TAX RECEIPTS CONTINUE TO CLIMB

The township's financial position continues to strengthen on the back of climbing income tax receipts. The township will continue to build cash reserves and operate in a surplus position.

About two-thirds of the township's \$3.5 million General Fund budget is funded by a 0.5% income tax. The township does not levy a property tax, though it has the authority to do so without limitation to rate or amount.

Although income taxes are usually more volatile and economically sensitive than property tax revenues, the township has managed this exposure very well. Management budgets for the income tax conservatively, typically anticipating 97% of the prior year's receipts. This practice has led to income tax out-performance in each of the past five years, helping the township run surpluses even throughout the recession.

Further, income taxes have grown in each of the past 10 years, due to growth in the taxable base. The township's population grew 13.4% from 2000 to 2010.

The township's residents work at a diverse variety of employers in the region, including Johnson & Johnson (Aaa stable), the Downingtown Area School District (Aaa stable), the Commonwealth of Pennsylvania (Aa2 stable), Siemens Corp., and International Business Machines (Aa3 stable). The township is commutable to Philadelphia (A2 stable), Wilmington, DE (Aa2 stable), and a number of other regional employment centers.

STRONG RESERVE POSITION

The combination of conservative budgeting and the positive income tax trend has led to reserve levels considerably stronger than peers. Including cash held in the capital fund, which is unrestricted and usable for operating purposes, total available reserves exceed 100% of revenues.

The township's fund balance policy is to hold a \$250,000 balance in the General Fund (roughly 7% of revenues) and transfer the rest to a capital fund. Although this implies the General Fund balance (currently 29%) is likely to decline, this represents simply a shift in the funds in which the township holds its unrestricted cash.

Because the township under-budgets for income taxes and includes capital expenditures in its budget, we expect overall reserves will continue to increase.

HEALTHY TAX BASE IN SUBURBAN PHILADELPHIA

The township's \$1.3 billion tax base in Chester County (Aaa stable) is healthy. Socio-economic indicators are above-average, with the median family income equal to 168% of the US median. The median home value in the township is \$330,000. Poverty is low at 2.7%.

The township is still not fully built out, and management expects continued growth in the housing stock in the next few years.

MODEST DEBT BURDEN

The township's debt after this transaction will equal roughly \$11.5 million, or 0.9% of full value. The debt burden is modest, and likely to decline as the township's future capital needs will be funded from the budget and existing capital funds.

Of the \$11.5 million of debt, only about \$3.6 million is payable from the General Fund. The remainder is sewer debt paid from a sewer fund, or debt that is paid from a lease with the Commonwealth of Pennsylvania. The township issued debt to fund an administration building that is leased to the Pennsylvania State Police; the lease payments are used to repay the debt.

The township participates in one single-employer plan for non-uniformed employees. The actuarial unfunded liability for this plan is about \$485,000. Moody's makes certain adjustments to reported pension liabilities to achieve better comparability among issuers. After making these adjustments, the adjusted net pension liability is equal to about \$1 million, or a very modest 0.3 times revenues.

The township's modest pension liability is mostly attributable to the fact that it doesn't have a police department, unlike most peers. The township is policed by the Pennsylvania State Police.

WHAT COULD CHANGE THE RATING UP:

Strengthening of tax base

WHAT COULD CHANGE THE RATING DOWN:

Depletion of cash reserves

Unfavorable trend in income tax receipts

KEY STATISTICS:

Tax base size: Full Value: \$1.3 billion

Full value per capita: \$108,984

Median family income as % of US: 168%

Fund balance as a % of revenues (including unrestricted capital funds): 116%

5-year dollar change in adjusted fund balance as a % of revenues: 41%

Cash balance as a % of revenue (including unrestricted capital funds): 114%

5-year dollar change in cash as a % of revenues: 41%

Institutional Framework: Aa

Operating History: 5-year average of operating revenues/operating expenditures: 1.24x

Net direct debt/full value: 0.9%

Net direct debt/operating revenues: 2.6x

Moody's ANPL/Full Value: 0.08%

Moody's ANPL/operating revenues: 0.29x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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