

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's assigns Aa1 to Lower Makefield, PA's \$8.8M GO Bonds, Ser. of 2015

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Global Credit Research - 23 Apr 2015

#### Affirms Aa1 on \$16.9M parity debt

LOWER MAKEFIELD (TOWNSHIP OF) PA  
Cities (including Towns, Villages and Townships)  
PA

#### Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series of 2015	Aa1
<b>Sale Amount</b>	\$8,790,000
<b>Expected Sale Date</b>	04/27/15
<b>Rating Description</b>	General Obligation

#### Moody's Outlook NOO

NEW YORK, April 23, 2015 --Moody's Investors Service has assigned a Aa1 rating to Lower Makefield, PA's \$8.8 million General Obligation Bonds, Series of 2015. Concurrently, we have affirmed the Aa1 on all outstanding debt.

#### SUMMARY RATING RATIONALE

The Aa1 rating incorporates the township's sizeable and affluent suburban tax base, modest debt position, and healthy financial position, supported by conservative management practices.

#### OUTLOOK

Outlooks are generally not applicable for local government credits with this amount of debt outstanding.

#### WHAT COULD MAKE THE RATING GO UP

- Continued structurally balanced operations, resulting in material improvements in fund balance and cash reserves
- Significant tax base expansion and improvement of the township's demographic profile
- Decreased debt service levels

#### WHAT COULD MAKE THE RATING GO DOWN

- Protracted structural budget imbalance, resulting in draws on fund balance and cash reserves
- Deterioration of the township's tax base and demographic profile
- Significant increases in debt service levels

#### STRENGTHS

- Sizeable tax base with above average wealth indices
- Stable financial trend with satisfactory reserve levels and liquidity
- Manageable debt burden

-Below average pension liability

## CHALLENGES

-Exposure to economically sensitive revenues

## RECENT DEVELOPMENTS

Recent developments incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE: SIZEABLE, GROWING TAX BASE WITH ABOVE AVERAGE WEALTH INDICES

The township's sizeable and affluent \$4.8 billion tax base will grow over the next several years as new residential properties come on the township's tax rolls. The township's tax base is predominantly residential (90.8% of assessed valuation) and located in the southeastern portion of Bucks County (Aaa stable). Assessed values have remained flat over the past five years, reflecting settled tax appeals and limited residential and commercial growth. Township officials report six new housing developments, which will provide 500 lots available for residential construction. Full valuation increased an average of 2.0% annually over the same period, indicative of the strengthening of the regional housing market. Management reports no expected changes to the township's top taxpayers, which accounted for 5.0% of 2015 assessed valuation. The township's income levels are well above average, with per capita and median family income equal to approximately two times both the state and national medians. Full value per capita is \$147,128.

### FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCIAL POSITION SUPPORTED BY CONSERVATIVE MANAGEMENT PRACTICES

The township's financial position is healthy given a history of conservative budgeting practices and maintenance of healthy reserve levels over the past several years. Fiscal 2013 operations, which yielded a modest operating surplus of \$5,000, marked the fourth consecutive year of growth in reserves, raising Available General Fund balance to \$2.1 million, or 19.6% of revenues. Growth in General Fund revenues have outpaced expenditure growth since 2009, largely driven by growth in real estate transfer taxes, licenses and permits, and real estate taxes. Notably, the township transitioned to a high-deductible healthcare plan in 2010, which generated \$716,605 cumulative savings over the last four years.

The fiscal 2014 budget included a 3.0% increase in spending, no tax rate increase, and no General Fund balance appropriation. Based on unaudited results, management anticipates adding approximately \$423,000 to General Fund balance at year end (December 31), increasing Available General Fund balance to approximately \$2.5 million. Real estate transfer taxes, which made up 10.9% of fiscal 2013 revenues, outperformed budgeted estimates by \$330,000.

The adopted fiscal 2015 budget includes a 3.0% increase in spending, no tax rate increase, and no General Fund balance appropriation. Officials report no major variances year-to-date. Future rating reviews will factor the township's ability to maintain structural balance and build reserve levels going forward.

### Liquidity

The township's cash position as of fiscal 2013 year-end was \$2.1 million, or 19.8% of revenues, up from a five-year low of \$922,000, or 9.9% of revenues, in fiscal 2008. The township's five-year dollar change in cash was 5.5% of revenues.

### DEBT AND PENSIONS: MANAGEABLE DEBT POSITION WITH VARIABLE RATE EXPOSURE

The township's debt position will remain manageable despite an additional planned borrowing of \$2.5 million as early as fiscal 2015. The direct debt burden is modest at 0.5% of full valuation, below the state and national medians (0.8% and 1.1%, respectively) for cities. Significant overlapping debt obligations increase the overall debt burden to 3.2% of full valuation. Principal amortization is slightly below average, with 59.9% of principal repaid in 10 years.

### Debt Structure

Approximately 36% of the township's outstanding debt is variable rate, of which \$9.2 million is issued through the Delaware Valley Regional Finance Authority (A2 stable)

## Debt-Related Derivatives

The township is not party to any derivatives.

## Pensions and OPEB

The township contributes 100% of its Annually Required Contribution (ARC) to the Lower Makefield Township Non-Uniformed Pension Plan and the Lower Makefield Township Police Pension Plan, which are both currently single-employer, defined benefit plans. The township's Annual Required Contribution (ARC) was \$931,694 in fiscal 2013, representing 8.2% of operating expenditures. The plans' adjusted net pension liability under Moody's methodology for adjusting reported pension data is \$9.1 million, or approximately 0.81 times operating revenues, which is below the national average. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported liability information, but to improve comparability with other rated entities.

The township also offers a post-employment benefits (OPEB) plan that is funded on a current-year basis. The township contributed 54.5% (\$89,038) of its annual OPEB cost in fiscal 2013. Total fixed costs for debt service, pension, and OPEB summed to \$2.3 million, or 20.2% of operating expenditures, in fiscal 2013.

## MANAGEMENT AND GOVERNANCE

Pennsylvania cities have an institutional framework score of Aa, or strong. Cities enjoy the authority to adjust the property tax millage without limitation. While many cities rely on economically sensitive revenues such as income taxes, they have the authority to increase property taxes to offset any declines in these revenues. Organized labor does have a strong presence in the state, and state labor law gives bargaining groups significant leeway to seek arbitration. Most cities have been challenged to control and predict labor costs.

The township's conservative management is evidenced by the recent trend of operating surpluses and maintenance of healthy reserves well above the informal target of 5% to 8% of expenditures. The township recently negotiated five-year contracts for the Police and Public Works unions, and these contract will require, for the first time, that these groups contribute 2% and 3% of their wages for pensions, respectively. These contributions are expected to reduce the township's pension obligation by \$120,000 annually in coming fiscal years. Additionally, the township negotiated a defined contribution plan for all new non-uniformed hires, which will eventually replace the current defined benefit plan, generating additional pension savings.

## KEY STATISTICS

Full Value, Fiscal 2014: \$4.8 billion

Full Value Per Capita, Fiscal 2014: \$147,128

Median Family Income as % of US Median: 218.10%

Available Fund Balance as % of Revenues, Fiscal 2013: 18.40%

5-Year Dollar Change in Fund Balance as % of Revenues: -5.69%

Cash Balance as % of Revenues, Fiscal 2013: 18.60%

5-Year Dollar Change in Cash Balance as % of Revenues: 5.50%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures: 1.03x

Net Direct Debt as % of Assessed Value: 0.54%

Net Direct Debt / Operating Revenues: 2.27x

3-Year Average ANPL as % of Assessed Value: 0.14%

3-Year Average ANPL / Operating Revenues: 0.59x

## OBLIGOR PROFILE

The Township is located in the southeastern portion of Bucks County and covers an area of 17 square miles.

## LEGAL SECURITY

The bonds are secured by the township's general obligation unlimited tax pledge.

## USE OF PROCEEDS

Proceeds will refund a portion of the township's outstanding Series 2010 bonds for an estimated net present value savings of \$305,000, or 3.6% of refunded principal, with no extension to maturity and the bulk of savings taken upfront.

## RATING METHODOLOGY

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

## REGULATORY DISCLOSURES

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