

## CREDIT OPINION

12 March 2025



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# Township of Lower Makefield, PA

Update to credit analysis following upgrade to Aa1

## Summary

Lower Makefield Township, PA's (Aa1) credit profile reflects a strong resident wealth and income profile and robust financial reserves following the sale of the township's sewer system. Median household income is equal to 213% of the US median when adjusted for regional price party and full value per capita is robust at nearly \$156,000.

Already moderate available reserve levels were augmented to a strong 107.9% of operating revenues in fiscal 2022 by the sale of the township's sewer system. Proceeds of the sale were used to pay off existing sewer and golf course debt driving the township's long-term liabilities ratio from 183% of operating revenue in 2021 to 125.7% in 2022. The balance of the sale proceeds have been placed in a trust to accrue interest. So far, the trust has accumulated roughly \$4 million. Now that it is debt free, the golf course is generating roughly \$800 thousand a year in net revenue which the township is using to reimburse itself for the sale proceeds that were used to pay off the golf course debt. Leverage will remain modest in the near term as the township has no new debt issuances planned and will draw on reserves for ongoing capital needs.

The lack of distinction between the Aa1 issuer rating and Aa1 GOULT rating reflects the township's pledge of its full faith and credit and unlimited authority to levy property taxes sufficient to pay debt service.

We initiated a review of the township's ratings on December 19, 2024 because the township had a delay in their financial reporting and had not provided audited financial statements for the fiscal year that ended on December 31, 2023. We have since received a substantially complete draft of the township's fiscal 2023 financial statements. If we do not receive the final fiscal 2023 audit by the end of June, we will place the township's ratings under review direction uncertain and withdraw them if we have not received the final audit by the conclusion of that review.

## Credit strengths

- » Robust available fund balance
- » Very strong median house hold income

## Credit challenges

- » Slow economic growth

## Rating outlook

We do not assign outlooks to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Maintenance of reserves at or near current levels.
- » Maintenance of long-term liabilities at near or current levels as the township completes planned capital investments.

### Factors that could lead to a downgrade

- » Prolonged deterioration of reserves
- » Significant increase in debt to over 200%

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

## Key indicators

Exhibit 1

### Lower Makefield (Township of) PA

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	231.1%	226.5%	233.5%	222.8%	114.1%
Full Value (\$000)	\$4,700,912	\$4,723,160	\$4,856,471	\$4,878,581	\$2,888,367
Population	32,662	32,743	33,141	33,187	22,430
Full value per capita (\$)	\$143,926	\$144,249	\$146,540	\$147,003	\$125,640
Annual Growth in Real GDP	1.1%	-3.8%	4.4%	2.6%	2.0%
<b>Financial Performance</b>					
Revenue (\$000)	\$32,821	\$33,823	\$36,569	\$31,632	\$52,335
Available fund balance (\$000)	\$1,253	\$6,437	\$9,840	\$34,123	\$29,526
Net unrestricted cash (\$000)	\$11,228	\$16,645	\$21,866	\$48,446	\$41,432
Available fund balance ratio (%)	3.8%	19.0%	26.9%	107.9%	57.1%
Liquidity ratio (%)	34.2%	49.2%	59.8%	153.2%	79.6%
<b>Leverage</b>					
Debt (\$000)	\$37,086	\$36,189	\$33,122	\$9,631	\$37,305
Adjusted net pension liabilities (\$000)	\$23,375	\$25,603	\$26,096	\$22,988	\$45,496
Adjusted net OPEB liabilities (\$000)	\$5,287	\$5,915	\$6,106	\$5,416	\$4,376
Other long-term liabilities (\$000)	\$1,423	\$1,514	\$1,586	\$1,716	\$1,726
Long-term liabilities ratio (%)	204.7%	204.7%	183.0%	125.7%	210.2%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$2,897	\$2,704	\$2,592	\$2,323	\$2,477
Pension tread water contribution (\$000)	\$1,070	\$909	\$788	\$825	\$1,199
OPEB contributions (\$000)	\$143	\$149	\$197	\$231	\$179
Implied cost of other long-term liabilities (\$000)	\$96	\$104	\$108	\$111	\$115
Fixed-costs ratio (%)	12.8%	11.4%	10.1%	11.0%	9.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Lower Makefield (Township of) PA's financial statements and Moody's Ratings, US Bureau of Economic Analysis

## Profile

Lower Makefield Township is located in Bucks County, PA (Aa1) on the Pennsylvania side of the Delaware River. The township is within 1.5 hours commuting distance to New York City (Aa2) and 25 minutes to center city Philadelphia (A1).

## Detailed credit considerations

Lower Makefield, PA continues to benefit from a growing population and economic base given its location within the Philadelphia metropolitan statistical area. The township's high resident income and strong full value per capita continue to provide for increased revenue collections and a very strong overall financial reserve position.

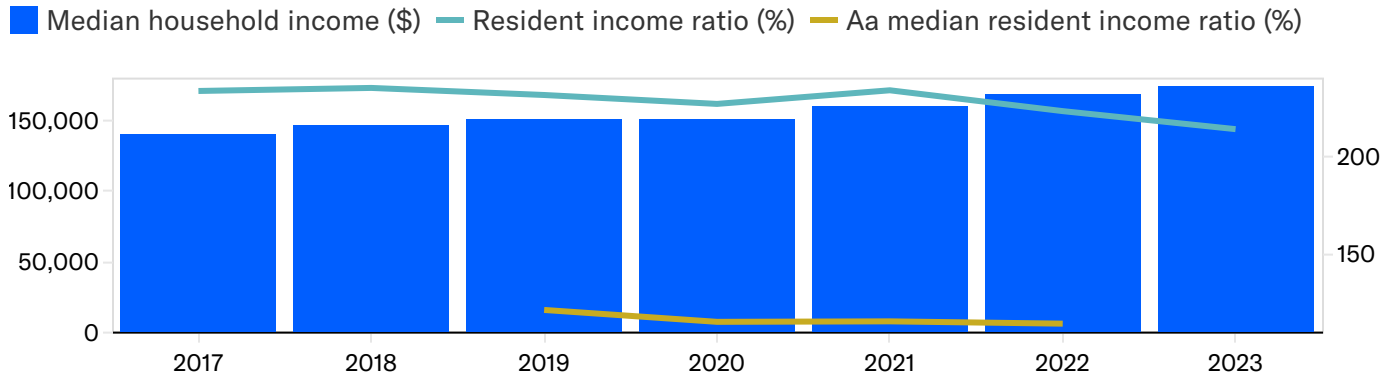
The township's very strong financial position will continue to be supported by property tax revenue and prudent financial management as new residential developments are under construction.

The sale of the township's sewer operation for \$53 million, boosted its available fund balance ratio from 26.9% of operating revenue in 2021 to 107.9% in 2022. Proceeds of the sale were used to pay off existing sewer and golf course debt driving the township's long-term liabilities ratio from 183% of operating revenue in 2021 to 125.7% in 2022. The balance of the sale proceeds have been placed in a trust to accrue interest. The trust can be utilized for capital needs or emergency funding with a super majority (4/5) vote by the township's board. So far, the trust has accumulated roughly \$4 million. Debt free, the golf course has been seeing roughly \$800 thousand a year in net revenue which is being used to reimburse the sale proceeds that were used to pay off the golf course debt.

## Economy

Exhibit 2

Median household income has grown steadily and is more than twice the Aa median

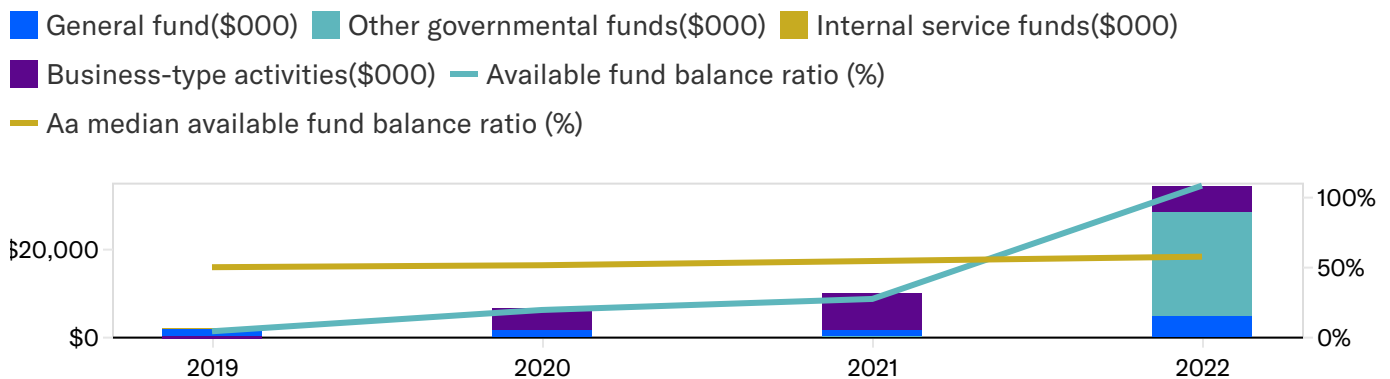


Source: Moody's Ratings

## Financial operations

Exhibit 3

Fund Balance increased sharply in 2022 upon sale of the sewer system



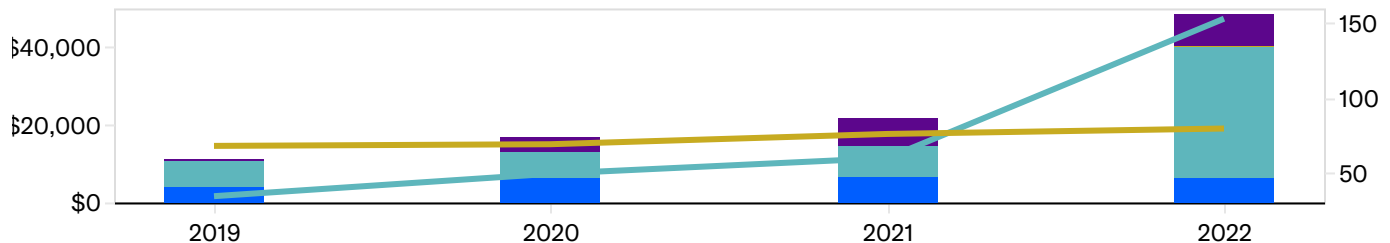
Source: Moody's Ratings

## Liquidity

Exhibit 4

Cash increased in line with fund balance upon sale of the sewer system

■ General fund ■ Other governmental funds ■ Internal service funds ■ Business-type activities  
 — Liquidity ratio (%) — Aa median liquidity ratio (%)



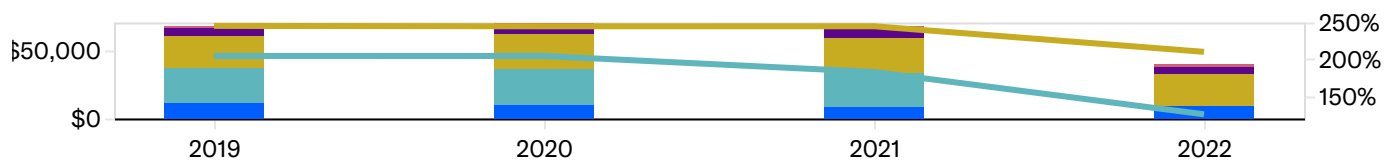
Source: Moody's Ratings

## Leverage

Exhibit 5

After repayment of golf course debt in 2022, the bulk of remaining long-term liabilities are adjusted net pension liabilities

■ Governmental Debt(\$000) ■ Business-Type Activity Debt(\$000)  
 ■ Adjusted net pension liabilities(\$000) ■ Adjusted net other post-employment liabilities(\$000)  
 ■ Other long-term liabilities(\$000) — Long-term liabilities ratio (%)  
 — Aa median long-term liabilities ratio (%)



Source: Moody's Ratings

## ESG considerations

### Environmental

Environmental risk is generally low for the local government sector and does not factor materially into the city's credit profile. Data from Moody's affiliate Four Twenty Seven indicates that Lower Makefield Township is at high risk of water stress, extreme rainfall, hurricanes and typhoons due to its proximity to the Delaware River

### Social

Social considerations are key influencers of all local economies, financial and leverage trends, and governance stability. Social factors are incorporated into the borough's rating by way of wealth (full value per capita) and income (median home income) metrics. Lower Makefield has relatively low exposure to social risks posed by labor and income, housing, health and safety and access to basic services.

### Governance

Lower Makefield, PA benefits from strong governance, reflected by a strong institutional structure, budget management and demonstrated policy effectiveness. The township has a minimum fund balance policy of 25% which they greatly exceed.

## Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

### Lower Makefield (Township of) PA

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	213.6%	10.0%	Aaa
Full value per capita	155,566	10.0%	Aa
Economic growth metric	-1.1%	10.0%	A
<b>Financial Performance</b>			
Available fund balance ratio	107.9%	20.0%	Aaa
Liquidity ratio	153.2%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	125.7%	20.0%	Aa
Fixed-costs ratio	11.0%	10.0%	Aa
<b>Notching factors</b>			
Additional Strength in Local Resources	0.5		
Scorecard-Indicated Outcome			Aaa
<b>Assigned Rating</b>			

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Lower Makefield (Township of) PA's financial statements and Moody's Ratings

## Appendix

Exhibit 7

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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