

## CREDIT OPINION

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# Lower Makefield (Township of) PA

## Update to credit analysis

### Summary

Lower Makefield's financial position will remain very strong moving forward in light of its conservative budgeting practices, and sizeable taxable property base.

### Credit strengths

- » Sizeable tax base with favorable wealth indices
- » Stable financial trend with satisfactory reserve levels and liquidity
- » Manageable debt burden
- » Below average pension liability

### Credit challenges

- » Limited room for future development

### Rating outlook

Outlooks are not typically assigned to local government credits with this amount of debt outstanding.

### Factors that could lead to an upgrade

- » Continued growth and stability in fund balance and cash reserves
- » Continued moderate growth in tax base

### Factors that could lead to a downgrade

- » Material decline in reserves and liquidity
- » Significant decline in the tax base
- » Material increase in debt burden

## Key indicators

Exhibit 1

Lower Makefield (Township of) PA	2012	2013	2014	2015	2016
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$4,297,626	\$4,374,175	\$4,410,153	\$4,458,467	\$4,474,300
Population	32,630	32,629	32,622	32,650	32,662
Full Value Per Capita	\$131,708	\$134,058	\$135,190	\$136,553	\$136,988
Median Family Income (% of USMedian)	220.9%	219.6%	221.0%	222.5%	218.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$11,152	\$11,291	\$12,151	\$12,351	\$13,854
Fund Balance (\$000)	\$2,723	\$2,906	\$2,575	\$2,721	\$11,849
Cash Balance (\$000)	\$3,014	\$2,924	\$3,177	\$3,557	\$19,270
Fund Balance as a % of Revenues	24.4%	25.7%	21.2%	22.0%	85.5%
Cash Balance as a % of Revenues	27.0%	25.9%	26.1%	28.8%	139.1%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$11,501	\$35,900	\$34,225	\$32,068	\$44,872
3-Year Average of Moody's ANPL (\$000)	\$4,966	\$6,618	\$8,336	\$12,043	\$15,036
Net Direct Debt / Operating Revenues (x)	1.0x	3.2x	2.8x	2.6x	3.2x
Net Direct Debt / Full Value (%)	0.3%	0.8%	0.8%	0.7%	1.0%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.6x	0.7x	1.0x	1.1x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.2%	0.2%	0.3%	0.3%

Source: Moody's Investors Service & Lower Makefield Township's Audited Financial Statements

## Profile

Lower Makefield Township is primarily residential and is located in the southeastern portion of Bucks County, covering an area of 17 square miles.

## Detailed credit considerations

### Economy and Tax Base: Sizeable tax base characterized by favorable wealth levels

The township's sizeable and affluent \$4.6 billion (2017) tax base will grow over the next several years as new residential properties come on the township's tax rolls. Management reports that several hundred new home permits have been issued, with more projected in the upcoming two fiscal years. The township's tax base is predominantly residential (over 80%) and located in the southeastern portion of [Bucks County](#) (Aaa negative). Of the residential portion of the tax base, 90% are single family homes, a key driver in the tax base.

Full valuation increased an average of 1.1% annually over the last five years. Management reports no expected changes to the township's top taxpayers, which accounted for 5.2% of 2017 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 \$138,747, far exceeding medians for PA cities.

### Financial Operations and Reserves: Healthy financial position bolstered by conservative budgeting and a willingness to increase property taxes moving forward

The township's financial position will remain healthy in light of continued conservative budgeting practices and a willingness to grow revenue over the next two fiscal years through increases in property taxes. The township has maintained a favorable reserve position over the last five years. At the end of fiscal 2016, the township's available General Fund balance was a very strong 25.2% of revenue or \$2.9 million. The current reserve position is at a five year high - an increase from 17.8% of revenue or \$1.8 million in fiscal 2012. The

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trend of positive finances are primarily due to conservative budgeting and strength in the local housing market. For example, while management has not budgeted for any material growth in the receipt of deed transfer taxes, revenue from such taxes has increased from \$1 million to \$1.6 million over six years.

When considering the township's combined total available operating fund balance of 85.5% or \$11.8 million in both its General and Debt Service funds, it should be noted that the balance is inflated due to the inclusion of bond proceeds from the Series of 2016 Bonds at year end.

Unaudited 2017 revenues came in higher than expected and expenses are on target with the budget. Additionally, the township increased its property tax levy for the first time in nine years by 2.35 mills or 15.8%, mostly to cover debt service on the Series of 2016 debt and recreation costs. As such, the township's General Fund balance preliminarily ended just shy of \$3 million or about 25% of revenue.

In 2018, management plans to increase the tax levy by an additional 1.5 mills or 8.6% mill to cover increased General Fund operations and recreation costs.

### LIQUIDITY

Lower Makefield's liquidity will grow in the near term along with its General Fund balance. At the end of fiscal 2016, the township had a net cash position of \$3.2 million or 27.8% of General Fund revenue.

### Debt and Pensions: Manageable debt position with limited borrowing plans; Average pension liability

The township's debt burden will remain manageable in the mid-term, as management reports that there are no plans to issue new money debt over the next three years. The township's net direct debt burden of 1.0% of full value is average relative to comparably rated cities of its size across the state and nation. At the end of fiscal 2016, the township had \$44.6 million in general obligation debt outstanding. Over ten years, a slightly below average 63% of principal will be repaid. Debt service was a moderate 10.6% of expenditures.

### DEBT STRUCTURE

After the refunding of the township's Series of 2002 A & B and Series of 2004 with the Series of 2018 bonds, all of the township's debt will be fixed rate and will mature over the long term.

### DEBT-RELATED DERIVATIVES

The township is not party to any interest rate swap or derivative agreements.

### PENSIONS AND OPEB

The township contributes to one single-employer defined contribution pension plan covering non-uniformed employees and one single-employer defined pension plan covering police. The township's annual required contribution totaled \$1.02 million in fiscal 2016.

The township's adjusted pension liability, under Moody's methodology for adjusting reported pension data, was \$18.10 million or below average at 1.31 times operating revenue. 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.

Total fixed costs for fiscal 2016 including pension, OPEB and debt service, represented \$2.5 million or an average 17.7% of annual expenditures.

### Management and Governance

While the township does not maintain a formal fund balance policy, management reports that its goal is to maintain a minimum of 8% of its budget in fund balance annually.

Pennsylvania townships 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.

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