

CREDIT OPINION

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Contacts

Matt Jaffe +1.212.553.4771
Analyst
 matt.jaffe@moody's.com

Tatiana Killen +1.212.553.2895
VP-Senior Analyst
 tatiana.killen@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

Warrington (Township of) PA (Bucks County)

Update to credit analysis

Summary

Warrington Township (Aa2), PA benefits from proximity to major employment centers, as illustrated by its moderately-sized tax base which has seen above-average growth as well as a significant amount of new residential development currently underway. Conservative budgeting and a willingness to raise property taxes has resulted in an improved fund balance but the township's cash position has narrowed significantly. While the debt burden and pension liabilities are average, the township's total fixed costs are somewhat elevated.

On March 20, 2019, Moody's assigned a Aa2 rating to the township's GO Bonds, Series of 2019.

Credit strengths

- » The moderately-sized tax base has experienced consistent growth, a trend which is expected to continue
- » Resident wealth and income levels are above-average

Credit challenges

- » Fixed costs are somewhat elevated
- » Township's cash position has declined significantly
- » Amortization of principal is below-average

Rating outlook

Moody's generally does not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material increase in reserve levels and liquidity
- » Continued, above-average growth in the tax base

Factors that could lead to a downgrade

- » Failure to maintain balanced operations resulting in material draws on reserves
- » Continued declines in the township's narrowed cash position

» Contraction of the tax base and deterioration of resident wealth and income levels

Key indicators

Exhibit 1

Warrington (Township of) PA (Bucks County)	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$2,688,625	\$2,717,807	\$2,791,221	\$2,830,193	\$2,916,816
Population	23,426	23,541	23,652	23,779	23,920
Full Value Per Capita	\$114,771	\$115,450	\$118,012	\$119,021	\$121,940
Median Family Income (% of US Median)	164.7%	167.6%	164.2%	163.7%	167.6%
Finances					
Operating Revenue (\$000)	\$13,642	\$14,852	\$15,606	\$16,117	\$15,502
Fund Balance (\$000)	\$1,821	\$1,979	\$2,469	\$4,392	\$4,825
Cash Balance (\$000)	\$2,262	\$2,957	\$2,746	\$2,691	\$944
Fund Balance as a % of Revenues	13.4%	13.3%	15.8%	27.3%	31.1%
Cash Balance as a % of Revenues	16.6%	19.9%	17.6%	16.7%	6.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$18,878	\$39,304	\$38,138	\$41,879	\$24,797
3-Year Average of Moody's ANPL (\$000)	\$3,400	\$3,603	\$6,191	\$12,689	\$17,027
Net Direct Debt / Full Value (%)	0.7%	1.4%	1.4%	1.5%	0.9%
Net Direct Debt / Operating Revenues (x)	1.4x	2.6x	2.4x	2.6x	1.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.1%	0.2%	0.4%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.2x	0.2x	0.4x	0.8x	1.1x

Source: Moody's Investors Service and Warrington Township, PA audited financial statements

Profile

Warrington Township is located in the central portion of Bucks County, approximately 20 miles north of the City of Philadelphia. The township encompasses 13.5 square miles and has a population of approximately 23,920.

Detailed credit considerations

Economy and tax base: moderately-sized and growing tax base with above-average wealth

The township's moderately-sized \$3.0 billion tax base (as of fiscal 2018) has realized steady, above-average growth in recent years as illustrated by a compound annual rate of growth of 2.2% over the last five years. Additionally, full valuation per capita is strong at \$125,360. The township is primarily residential, with properties assessed as such accounting for 82% of the tax base, followed by commercial properties which account for approximately 15% of the tax base. Taxpayer concentration is minimal with the top ten taxpayers accounting for just 5.6% of assessed value. Management reports that top taxpayers are all stable or expanding and that there are a number of new developments currently under construction, which all together will add 270 single-family homes, 116 townhouses and several new commercial properties. Additionally, there are a number of new developments that are in the planning phases. Given the degree of new development currently underway, above-average growth of the tax base is expected to continue in the near- to medium-term.

In recent years, the township's population of 23,920 (2016 ACS) has realized steady, modest year-over-year growth. Resident wealth and income levels are well above-average as illustrated by per capita income and median family income at 135.5% and 167.6% of national levels. Additionally, with 7.4% of the population living below the poverty level, poverty is below the state and national rates of 13.3% and 15.1%, respectively.

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Financial operations and reserves: improved operations but cash position has declined significantly

Warrington Township's financial position is healthy, characterized by growing reserves due to structurally balanced operations. Over the last five years, the township's operating funds, which consist of the general, debt service and highway aid funds, have grown at a significant compound annual rate of 35.7%. In fiscal 2017, adopted a budget that was balanced without the use of reserves or a tax increase and realized an operating surplus of approximately \$432,000. At the close of the fiscal year, available operating fund reserves were \$4.8 million, representing a strong 31.1% of revenues.

In fiscal 2018, the township's adopted budget was balanced and included a 1.6% tax increase. While audited financial statements are not yet available, management reports an operating surplus of approximately \$768,000 and fund balance increasing to \$5.2 million, which represents 39.7% of fiscal 2018 budgeted revenues. Notably, this fund balance projection includes a \$1.7 million receivable associated with unreimbursed expenditures from the township's capital projects funds, all of which have sufficient cash to reimburse the general fund.

For fiscal 2019, the township's general fund budget increased by 16.5%, primarily due to a \$1.5 million transfer to the capital reserve fund. The adopted budget, which was balanced with a 13.2% property tax increase and the use of \$1.5 million in reserves is structurally balanced net of the transfer to the capital reserve fund. Based on year-to-date operations, management expects to outperform its adopted budget and conservatively estimates fund balance of approximately \$4.1 million, which represents a healthy 26.8% of revenues.

Local taxes make up the majority of the township's operating fund revenues, accounting for 69.2% in fiscal 2017. Of all local tax revenue, the majority are attributed to economically sensitive earned income and real estate transfer taxes which accounted for 52.1% in fiscal 2017, followed by property taxes which accounted for 43.3%.

LIQUIDITY

At close of fiscal 2017, the township had net cash in its operating fund of \$944,000 which represents a narrow 6.1% of revenues and a significant decline from fiscal 2016. Management has noted that all expenditures are paid through the general fund and the decline was primarily due to unreimbursed capital expenditures. Unaudited fiscal 2018 numbers show net cash of \$2.7 million, representing a much healthier 20.8% of budgeted revenues.

Debt and pensions: average debt burden and manageable pension liability

Following the issuance of General Obligation Bonds, Series of 2019, the township will have a total outstanding general obligation debt of \$46.6 million. Net of self-supporting debt associated with the water and sewer system, the township's net direct debt falls to \$32.9 million or a manageable 1.1% of full valuation. In fiscal 2017, the township's debt service was \$2.3 million, representing 14.8% of operating revenues. While amortization is below-average with 54.3% of principal retired within ten years, the township's debt burden is expected to remain manageable given tentative plans to issue additional debt in the near term.

DEBT STRUCTURE

All of the township's debt is fixed rate and amortizes over the long-term.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

The township administers two defined-benefit pension plans, one for police officers and one for non-uniform employees. In fiscal 2017, the township's contributions to both plans totaled \$863,000 which represented 5.6% of operating revenues.

Under Moody's methodology for adjusting reported pension liabilities, the township's three-year average adjusted net pension liability (ANPL) for both plans was \$17.0 million, which represents an average 1.1x operating revenues or 0.6% of full valuation. Moody's uses ANPL 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 covers OPEB expenses on a pay-as-you-go basis and in fiscal 2017 related expenses were \$126,000. Total fixed costs for fiscal 2017, which include pension, OPEB and debt service expenditures, were \$3.3 million or 21.1% of operating revenues.

Management and governance: strong institutional framework score

Township management is strong as illustrated by a significantly improved financial position, the result of conservative budgeting and a willingness to raise property taxes.

Pennsylvania Cities have an Institutional Framework score of Aa, which is strong compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. Cities major revenue sources, property taxes, are moderately predictable but most cities are also exposed to economically sensitive income taxes. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, Pennsylvania has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

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