

MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns initial Aa2 to Upper Uwchlan Twp PA's \$6M 2014 GO bonds

Global Credit Research - 05 Aug 2014

UPPER UWCHLAN (TOWNSHIP OF) PA
Cities (including Towns, Villages and Townships)
PA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Series of 2014	Aa2
Sale Amount	\$6,000,000
Expected Sale Date	08/18/14
Rating Description	General Obligation

Moody's Outlook

Opinion

NEW YORK, August 05, 2014 --Moody's Investors Service has assigned an initial Aa2 rating to the Township of Upper Uwchlan, PA's \$6 million General Obligation Bonds, Series of 2014. The bonds are secured by the township's general obligation, unlimited tax pledge. The bonds will fund the construction of a wastewater treatment plant.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the township's strong reserve levels, modest debt burden, and moderately sized tax base with above-average wealth levels.

STRENGTHS

- Stable, moderately sized tax base with above-average wealth levels
- Strong General Fund financial position

CHALLENGES

- Significant exposure to economically sensitive revenues

DETAILED CREDIT DISCUSSION

SOLID FINANCIAL POSITION DESPITE ENTERPRISE FUND SUPPORT

The township's financial position will remain stable given strong fund balance policies and conservative budgeting. The township ended fiscal 2013 with a \$903,000 surplus due primarily to an additional \$406,000 earned income tax revenue beyond what was budgeted. Fund balance at the end of the year totaled \$3.8 million, or 64.9% of revenues.

The fiscal 2014 general fund budget was structurally balanced and increased 5% from the prior year's budget. The budget did not include a millage increase. Management reports being ahead of budget and projects ending the year with a surplus. The township's primary revenue source is earned income taxes which accounted for 57.5% of General Fund revenues. While earned income taxes can be volatile, the township's strong fund balance policy of a minimum of 35% provides additional financial flexibility. The township anticipates maintaining current fund balance levels in the near term.

MODERATELY SIZED TAX BASE WITH STRONG WEALTH LEVELS

The township's \$1.5 billion tax base will remain stable given its favorable location. Located in Chester County (GO rated Aaa stable), the township benefits from its proximity to Philadelphia (GO rated A2 stable) and other regional employment centers. Due to the slowdown in new development, the township experienced a compound annual decline in full values of 0.2% from 2009 to 2014. Management reports some new high-end residential development and additional commercial space under development. A strong demographic profile is reflected by a median family income equal to 261.9% of the national median, and full value per capita is a strong \$137,208.

DIRECT DEBT BURDEN EXPECTED TO REMAIN LOW

The township's low 0.5% direct debt burden will likely remain low given the township's lack of future debt plans. Debt service comprised 9.2% of fiscal 2013 operating expenditures. Principal is retired at a average rate of 31.5% within 10 years. All the township's debt is fixed rate and the township is not party to any derivative agreements.

The township administers two defined-benefit pension plans: Upper Uwchlan Township Police Pension Plan and Upper Uwchlan Non-Uniformed Pension Plan. Moody's 2013 combined adjusted net pension liability (ANPL) for the township, under our methodology for adjusting reported pension data, is \$2.2 million, or a low 0.38 times fiscal 2013 operating revenues. This compares to approximately 1.0 times, on average, for all local governments. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported contribution information, but to improve comparability with other rated entities.

What could make the rating go up:

- Significant growth in tax base
- Appreciable improvement in socioeconomic factors

What could make the rating go down:

- Significant tax base declines

KEY STATISTICS

Full Value, Fiscal 2013: \$1.54 billion

Full Value Per Capita, Fiscal 2013: \$137,208

Median Family Income as % of US Median: 261.9%

Fund Balance as % of Revenues, Fiscal 2013: 64.4%

5-Year Dollar Change in Fund Balance as % of Revenues: 18.2%

Cash Balance as % of Revenues, Fiscal 2013: 64.5%

5-Year Dollar Change in Cash Balance as % of Revenues: 18.1%

Institutional Framework: "Aa"

5-Year Average Operating Revenues / Operating Expenditures: 1.10x

Net Direct Debt as % of Full Value: 0.92%

Net Direct Debt / Operating Revenues: 2.42x

ANPL as % of Assessed Value: 0.15%

ANPL / Operating Revenues: 0.38x

RATING METHODOLOGY

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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