New Issue: Moody’s assigns Aaa to Lower Merion Twp, PA’s $14.3M 2015 GO Bonds; outlook stable

Global Credit Research - 21 Nov 2014

Affirms Aaa on $100M outstanding GO bonds

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

Moody’s Rating

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<th>ISSUE</th>
<th>RATING</th>
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<tr>
<td>General Obligation Bonds Series 2015A</td>
<td>Aaa</td>
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<td>Sale Amount</td>
<td>$4,745,000</td>
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<td>Expected Sale Date</td>
<td>12/13/14</td>
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<tr>
<td>Rating Description</td>
<td>General Obligation</td>
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General Obligation Bonds, Series B of 2015 | Aaa |
Sale Amount | $9,510,000 |
Expected Sale Date | 12/13/14 |
Rating Description | General Obligation |

Moody’s Outlook  STA

Opinion

NEW YORK, November 21, 2014 --Moody’s Investors Service has assigned a Aaa rating to the Township of Lower Merion, PA’s $4.7 million General Obligation Bonds Series 2015A and $9.5 million General Obligation Bonds Series 2015B. The outlook is stable. At the same time, we have affirmed the Aaa rating on approximately $100 million of previously issued parity bonds.

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

Proceeds of the 2015A bonds will be used to currently refund the township's Series 2005A bonds for estimated net present value savings of 7%. Proceeds of the 2015B bonds will be used to fund projects in the township's capital improvement program.

SUMMARY RATING RATIONALE

The Aaa rating reflects the township's large and very affluent tax base in suburban Philadelphia (A2 stable); a strong financial position; a moderate debt burden; and an actuarially over-funded pension plan.

The stable outlook incorporates the township's long-term financial planning and strong financial policies, which will ensure an above-average financial position even as the township undergoes planned draws from reserves for the next few years.

STRENGTHS

Very affluent and large tax base
Actuarially over-funded pension plan
CHALLENGES

Undergoing planned draws from fund balance for the next few years

LARGE, AFFLUENT TAX BASE IN SUBURBAN PHILADELPHIA

The township’s $13 billion tax base is among the largest and most affluent in Pennsylvania. Located in the Main Line region of suburban Philadelphia, Lower Merion is a township with a well above-average socioeconomic profile. The median family income in the township is equal to 241% of the US median, and per capita income of the township's 57,967 residents is equal to 260% of the US median. The township’s socioeconomic indicators are strong even relative to peers in the Aaa rating category.

The median home value in the township is more than $550,000, reflecting the desirable location and upscale, suburban nature of the community.

Although the township is mostly built out, assessed valuation continues to grow based on increasing home values and some new development, particularly high-density, mixed-use developments.

The full value of the township’s tax base rose more than 10% in 2014 as the regional real estate market strengthened, based on the equalization ratio reported for Montgomery County (Aa1 negative). Full value per capita of $225,000 is exceptionally high for a residential community.

SOLID FINANCIAL POSITION

The township's currently solid financial position is likely to remain strong in coming years.

The township’s $58 million general fund budget is funded mainly by a property tax levy (54% of revenues), business and mercantile taxes (16%), and realty transfer taxes (6%). Unlike many suburbs in this region, the township does not levy an earned income tax.

Increases in the business and mercantile taxes and realty transfer taxes the past few years have driven the township's fund balance to a very strong position. In 2013, the general fund balance of $20.2 million was equal to 35.6% of revenues. The township expects an operating deficit in 2014.

The township by policy maintains an unassigned general fund balance target of 15% to 18%, although it has held fund balance in excess of this level for years. In light of the large fund balance, the township plans to draw down the fund balance at a measured pace over the next few years.

Not included in the 35.6% fund balance is a $9 million unrestricted balance in the township’s equipment fund. Including this balance would bring the operating balance to more than 50% of revenues.

MODERATE DEBT BURDEN

The township’s debt burden is manageable. The total debt burden of about $110 million includes roughly $15 million of general obligation debt payable through the sewer fund. Excluding this self-supporting debt, the township's net direct debt burden is equal to about 0.7% of full value and 1.7 times revenues, which is a moderate burden.

The township’s capital plan lists more than $200 million in projects over the next six years, although the majority of the funding for the plan will come from state and federal grants and other sources. The township-funded portion of the plan equates to about $10 million a year, implying the debt burden will not change significantly.

The township maintains two single-employer defined-benefit pension plans, one for its police force and another for other employees. Both of these plans were more than 100% funded on an actuarial basis as of 2013, making Lower Merion one of the few townships in Pennsylvania to report a net pension asset. After Moody's adjustments for pension liabilities, the township’s adjusted net pension liability is equal to 0.9 times revenues. The adjustments are not intended to replace the township’s reported liability information, but to improve comparability with other rated entities.

OUTLOOK

The stable outlook reflects our expectation that the township will be able to successfully navigate a period of measured fund balance draw-downs over the next few years. The township's financial position is likely to remain strong going forward.
WHAT COULD CHANGE THE RATING DOWN:
Draws from reserves beyond levels currently contemplated

KEY STATISTICS:
Full Value: $12.99 billion
Full value per capita: $224,668
Median family income as % of US: 241%
General Fund balance as a % of revenues: 35%
5-year dollar change in fund balance as a % of revenues: +14%
Cash balance as a % of revenue: 47%
5-year dollar change in cash as a % of revenues: +18%
Institutional Framework: Aa
5-year average of operating revenues/operating expenditures: 1.03x
Net direct debt/full value: 0.7%
Net direct debt/operating revenues: 1.65x
3-year average Moody’s ANPL/Full Value: 0.39%
3-year average Moody’s ANPL/operating revenues: 0.87x

RATING METHODOLOGY
The principal methodology used in these ratings 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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