

# RatingsDirect®

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**Summary:**

**West Brandywine Township,  
Pennsylvania**

**West Brandywine Township Municipal  
Authority; General Obligation**

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## Table Of Contents

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Rationale

Outlook

Related Research

## Summary:

# West Brandywine Township, Pennsylvania West Brandywine Township Municipal Authority; General Obligation

## Credit Profile

### West Brandywine Twp Mun Auth, Pennsylvania

West Brandywine Twp, Pennsylvania

West Brandywine Twp Mun Auth (West Brandywine Twp) gtd swr (AGM)

*Unenhanced Rating*

A+(SPUR)/Stable

Upgraded

Many issues are enhanced by bond insurance.

## Rationale

S&P Global Ratings has raised its rating four notches to 'A+' from 'BBB' on the West Brandywine Township Municipal Authority, Pa.'s sewer revenue debt, issued for West Brandywine Township. The outlook is stable.

The upgrade reflects our opinion of the township's improved management conditions, which have contributed to a demonstrated history of stable financial operations and liquidity over the last few years. The lack of managerial oversight and stability in the past that led to the misappropriation of township funds by the former township manager has largely been addressed, in our opinion, with the adoption of stronger management practices and policies.

The bonds are a limited obligation of the authority, secured by a continuing, irrevocable, and exclusive lien on, and pledge of, sewer system revenue. The township's full-faith-credit-and-taxing-power pledge secures the bonds unconditionally for the repayment of principal and interest as they become due and payable.

Our credit opinion reflects the stronger credit profile of the pledges, which we consider the township's pledge.

The rating also reflects our opinion of the township's:

- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Adequate budgetary flexibility, with a low nominal available cash reserve (\$475,000) that we expect will decrease as a percent of expenditures in the near term from its fiscal 2016 level of 16%;
- Very strong liquidity, with total government available cash at 41.8% of total governmental fund expenditures and 4.9x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 8.5% of expenditures and net direct debt that is 116.3% of total governmental fund revenue; and
- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong institutional framework score.

## **Adequate management**

With the adoption of what we consider better policies and practices, we have revised the township's management assessment to adequate from weak. We continue to consider its financial policies and practices as "standard" under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Our previous management assessment of "weak" reflected poor management conditions, including management turnover and lack of internal controls, which contributed to a misappropriation of funds, as well as negative financial performance in prior years.

After the county district attorney charged the former township manager with misappropriating township funds--an amount we consider negligible--the manager resigned in May 2013. We understand West Brandywine had kept the position vacant partially to reduce costs, and the secretary-treasurer assumed the bulk of the manager's duties. In addition, the secretary-treasurer and financial administrator have been with the township for more than 10 years. At the same time, we believed the lack of a CEO heightened medium-term operating risk, which could include difficulty in maintaining structurally balanced operations. The political issues the township was facing put it into structural imbalance in the past. However, this is no longer a concern because West Brandywine hired a new township manager and new authority manager over three-and-a-half years ago, which we believe has provided stability and consistency to financial operations.

Highlights include management's:

- Looking back two-to-three years at revenue and expenditures when budgeting;
- Monthly reports on budget-to-actual results to the township board;
- Following commonwealth guidelines for investments with monthly investment reports to the board; and
- Formal reserve policy, implemented on June 1, 2017, stating undesignated fund balance will remain above 12% of expenditures.

The township currently lacks formal long-term capital planning and formal investment management and debt management policies.

## **Strong budgetary performance**

West Brandywine's budgetary performance is strong, in our opinion. The township had operating surpluses of 1.5% of expenditures in the general fund and 15.4% across all governmental funds in fiscal 2016.

The township has been posting annual general fund surpluses since fiscal 2013. We attribute the positive financial performance to raising taxes by 77.4% from 1.3 mills to 2.3 mills in 2015, hiring a new township manager three-and-a-half years ago, previously moving to a four-day workweek, instituting a general spending freeze, and being more fiscally aware.

The fiscal 2017 budgeted expenditures total \$3.1 million, using \$53,000 of fund balance appropriation to balance the budget. Officials report that the township will finish the year with close to break-even operations, and expects to add close to \$2,000 to its available fund balance.

The fiscal 2018 budgeted expenditures total \$3.2 million, showing a \$30,941 general fund surplus. At this time, officials are expecting the township to post another slight general fund surplus, assuming all goes as expected throughout the

year. Therefore, we expect budgetary performance to remain strong.

### **Adequate budgetary flexibility**

West Brandywine's budgetary flexibility is adequate, in our view, with an available cash reserve that we expect could decrease in the near term from its fiscal 2016 level of 16% of operating expenditures. The township's reserves are low on a nominal basis at \$475,000, which we view as vulnerably low and a negative credit factor. Impairing budgetary flexibility, in our view, is the use of cash accounting, which reduces clarity about the amount of funds that are truly available.

West Brandywine's current real estate millage rate is 2.3 mills, which remains well below its 14-mill cap. Officials report that one levied mill would generate roughly an additional \$419,000 in revenue. We believe this gives the township additional flexibility if the need were to arise. However, officials report that they did not raise taxes in fiscal 2018 and do not plan to do so in the near future. The township has not recently made any layoffs at the governmental level, and there are none planned.

Beginning fiscal 2017, management indicated that the township will be transitioning to accrual-based accounting from cash accounting. As a result, despite the positive financial performance expected in fiscal 2017, officials report that the available fund balance will be \$389,560 on an accrual basis of accounting at the end of the year, or 12.47% of projected expenditures. The decrease in available reserves from fiscal 2016 is strictly due to the transition from cash accounting to accrual-based accounting. Fiscal 2018 is currently budgeted to end with a fund balance that totals \$420,500, or 13.14% of budgeted expenditures. Therefore, we expect budgetary flexibility to remain at least adequate.

### **Very strong liquidity**

In our opinion, West Brandywine's liquidity is very strong, with total government available cash at 41.8% of total governmental fund expenditures and 4.9x governmental debt service in 2016. In our view, the township has strong access to external liquidity if necessary.

West Brandywine has issued three general obligation (GO)-backed water and sewer bonds over the past decade, which we believe provides it with access to strong liquidity, if needed. West Brandywine's only investments are in certificates of deposit and money market accounts, which we do not view as aggressive. The township does not currently have any direct-purchase debt. It has issued tax and revenue anticipation notes (TRANS) in fiscal years 2015 and 2016 to provide cash flow relief during the first few months of the fiscal year. However, it never drew on the TRANS and has not needed to issue a TRAN in fiscal 2017 for cash flow purposes. We expect cash flows to remain stable.

### **Weak debt and contingent liability profile**

In our view, West Brandywine's debt and contingent liability profile is weak. Total governmental fund debt service is 8.5% of total governmental fund expenditures, and net direct debt is 116.3% of total governmental fund revenue.

Net direct debt includes the authority's series 2009 and 2012 debt because, though the authority continues to meet its obligations, net operations were insufficient to support obligations in fiscal 2012 and it reported virtually no unrestricted cash that year. Authority management reports the cash position has improved, and it has reduced sewer utility costs through such means as shifting to a conveyance-only sewer utility from one that included treatment. The authority has also raised rates over the past couple of years, helping improve finances. We understand it complies with

bond covenants to maintain respective reserve funds associated with the series 2009 and 2012 bonds at the least of maximum annual debt service (MADS), 1.25x average annual debt service, or 10% of bonds outstanding.

West Brandywine does not have any direct-purchase debt outstanding. Officials report that the township does not have any additional debt plans for at least the next five years.

The township's pension contributions totaled 7% of total governmental fund expenditures in 2016. It made its full annual required pension contribution in 2016.

West Brandywine contributes to two pension plans, a non-uniformed and a police pension plan. The non-uniformed pension plan is a single-employer defined-contribution pension plan covering the West Brandywine Township full-time non-uniformed employees. The police pension plan is a single-employer defined-benefit pension plan covering the full-time police officers. The township has made its full annual required pension contributions. The largest plan is 72.5% funded. The township does not provide pensions and other postemployment benefits.

### **Strong economy**

We consider West Brandywine's economy strong. The township, with an estimated population of 7,572, is in Chester County, about 35 miles west of Philadelphia and 25 miles northwest of Wilmington, Del. It is in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 134% of the national level and per capita market value of \$85,035. Overall, market value was stable over the past year at \$643.9 million in 2016. The county unemployment rate was 3.9% in 2016.

The township has been active in trying to promote local development. Assessed value has remained steady since fiscal 2013 and currently totals \$419.6 million.

### **Strong institutional framework**

The institutional framework score for Pennsylvania nonhome-rule cities and all boroughs and townships is strong.

## **Outlook**

The stable outlook reflects West Brandywine's strong economy. Its very strong liquidity provides further stability. Therefore, we do not expect to change the rating over the outlook's two year horizon.

### **Upside scenario**

If the township's available reserves were to increase and be sustained above \$500,000, barring no deterioration in any other credit factors, we could raise the rating.

### **Downside scenario**

Holding all other factors equal, should budgetary performance weaken and contribute to lower budgetary flexibility or liquidity, with no plans to correct, we could lower the rating.

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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