Borough of Doylestown, PA

Issuer: Borough of Doylestown, PA		
Affirmed	**Rating**	**Outlook**
General Obligation Notes	AA	Stable

Methodology:

U.S. Local Government GO Methodology

ESG Global Rating Methodology

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Rating Summary: The Borough of Doylestown's ("the Borough") outstanding General Obligation Notes, 2020 Series ("2020 Notes") and General Obligation Notes, 2013 Series ("2013 Notes") are secured by a pledge of the Borough's full faith and credit and, under Pennsylvania statute, the Borough has the power to levy ad valorem property taxes, without limitation as to rate or amount, to pay debt service on its general obligation borrowings.

KBRA continues to assess the Borough's management structure and policies as effective and strong. Operating policies are substantially unchanged year over year and the Borough continues to leverage established comprehensive and conservative budget practices to achieve satisfactory operating results. Budget-to-actual financial results are monitored on a monthly basis and the Borough may implement midyear expenditure adjustments. The Borough utilizes a rolling five-year capital improvement plan and maintains a formal reserve policy with an emergency reserve targeting 10% of general fund operating revenues.

The overall debt burden of the Borough remains low. Direct borrowings total $6.8 million. Debt service accounted for a low 2.7% of governmental expenditures in FY 2021. Approximately 57.5% of the Borough's debt will amortize in ten years. Budgeted fixed costs for FY 2022 are equivalent to a very manageable 6.0% of 2021 governmental expenditures, which includes its contributions to the Non-Uniform Employees' pension fund and its proportionate share of contributions for the Central Bucks Regional Police Department (CBRPD) pension fund. The Borough has historically contributed to its pension funds at the actuarially determined level. State aid covers a portion of the minimum municipal obligation (MMO) of the Non-Uniformed pension fund and the Police Pension fund, whose costs are shared among the Boroughs of Doylestown, New Britain, and Chalfont. The Borough's total direct and overlapping debt remains low at 0.83% of full market value and $1,393 on a per capita basis. Total net pension liability as a percentage of the Borough's full market value remains low at less than 1%.

In KBRA's view, Doylestown's financial profile is moderately strong. The aggregate general fund unassigned and emergency reserve fund balance increased to $1.5 million or 22.1% of expenditures in 2021, the highest level in five years. Governmental funds liquidity declined in 2021 due to the spend down of monies designated for capital purposes, but cash and cash equivalents continued to provide a satisfactory 78 days cash on hand. General fund revenues are diverse with 30.9% derived from earned income tax, 19.7% from charges for services, and 17.9% from property tax in FY 2021. Ending general fund balance has trended upward over the last five years. Increased charges for services and earned income tax receipts have supported structural balance in recent years. Available general fund reserves (11.5% from unassigned fund balance and 10.6% from the emergency reserve) increased from 14.6% to 22.1% of general fund expenditures in FY 2021.

Early estimates of FY 2022 financial results suggest that revenue is continuing to recover. Estimated FY 2022 general fund revenue (excl. transfers and sale of fixed assets), per the FY 2023 budget, is up 3.0% YoY and 6.8% above the FY 2022 budget. Earned income taxes and property taxes in FY 2022 are estimated to have +14.6% and +1.6% variances, respectively, versus budget. The general purpose ad valorem tax levy for FY 2023 is 10.915 mills, well below the 30 mill statutory limit (35 mills with permission of the Court of Common Pleas for the County). Projected FY 2022 general fund expenditures are 13.0% above the FY 2021 actual equivalent and 7.0% above the FY 2021 budget. Doylestown received $868,561 of American Rescue Plan Act (ARPA) which management anticipates will be spent on stormwater improvements in 2023.

KBRA continues to view the Borough's municipal resource base as strong. Situated within Bucks County, the Borough is approximately 30 miles north of Philadelphia and 80 miles southwest of New York City and benefits from proximity to the diverse employment base of the greater Philadelphia area and southern New Jersey. In 2021, Doylestown's per capita income was 146.5% of the State average and the poverty rate of 7.5% was below the State's 11.8%, albeit above Bucks County's 5.5%. Population declined from 2011 to 2021 by a marginal 0.14% CAGR, reflecting the mature economy. The County's unemployment rate has been consistently below the State's. KBRA estimates that full market value (FMV) per capita is robust at $167,521. Assessed value (AV) grew at a modest 1.06% 5-year CAGR through 2021, though FMV rose at a 2.64% 5-yr CAGR, due to strong growth in 2018 and 2020.

The Stable Outlook reflects KBRA's expectation that the Borough will continue to effectively manage its financial operations and maintain strong liquidity and reserve levels.

Key Credit Considerations

The rating was affirmed because of the following key credit considerations:

Credit Positives

- Strong wealth and income levels and stable population and employment base with proximity to large regional employment centers.
- Very strong available reserves relative to operations and ample liquidity.
- Low debt burden.

Credit Challenges

- General fund revenue base is somewhat dependent on earned income taxes which can be cyclically sensitive.

Rating Sensitivities

▪ Significant strengthening of the Borough's tax base and improved socioeconomic indicators. ▪ Sustained improvement of the Borough's financial position.	+
▪ Trend of structural imbalance in operations. ▪ Significant deterioration in level of reserves or adverse developments in tax base.	-

Borough of Doylestown, PA
General Fund Summary Statement of Income, Unassigned Fund Balance, and Liquidity
(Modified Accrual Basis in $000s)

FYE Dec. 31	2017	2018	2019	2020	2021
Summary Statement of Income					
Revenues	$ 5,631	$ 6,009	$ 6,430	$ 5,880	$ 7,290
Expenditures	6,015	6,264	6,432	6,622	6,905
Excess (Deficiency) of Operating Revenues Over Expenditures	(384)	(256)	(1)	(742)	384
Other Financing Sources (Uses)	310	347	372	374	158
Net Change in Fund Balance	(75)	92	370	(369)	542
Beginning Fund Balance	1,087	1,012	1,104	1,474	1,105
Ending Fund Balance	$ 1,012	$ 1,104	$ 1,474	$ 1,105	$ 1,648
Unassigned/Spendable Fund Balance and Liquidity					
Total Fund Balance	1,012	1,104	1,474	1,105	1,648
Spendable Fund Balance					
Restricted Fund Balance	81	111	125	139	123
Emergency Reserve	563	601	643	588	729
Unassigned Fund Balance	368	392	706	379	795
as a % of Expenditures	*6.1%*	*6.3%*	*11.0%*	*5.7%*	*11.5%*
Unassigned Fund Balance + Emergency Reserve	931	993	1,349	967	1,524
as a % of Expenditures	*15.5%*	*15.9%*	*21.0%*	*14.6%*	*22.1%*
Cash and Cash Equivalents - GF	619	665	1,205	706	1,241
as a % of Expenditures	*10.3%*	*10.6%*	*18.7%*	*10.7%*	*18.0%*
Cash and Cash Equivalents - Govt Funds	1,058	2,449	3,461	7,488	3,530
Govt Expenditures	7,209	7,289	7,282	11,566	16,446
Cash and Cash Equivalents as a % of Expenditures	*14.7%*	*33.6%*	*47.5%*	*64.7%*	*21.5%*
Days Cash on Hand	54	123	173	236	78

Source: Audited Financial Statements

Debt Metrics	FY 2021
Overall Direct and Overlapping Debt Per Capita	$ 1,393
Overall Debt as a % of Full Market Value	0.8%
Debt Amortization Within 10 Years	57.5%
Fixed Costs as a % of Governmental Expenditures	6.0%

Rating Determinants (RD)	
1. Management Structure and Policies	AA
2. Debt and Additional Continuing Obligations	AAA
3. Financial Performance and Liquidity Position	AA
4. Municipal Resource Base	AA

A detailed review of each rating determinant as well as an assessment of ESG Management can be found in prior KBRA reports, the most recent of which is dated January 26, 2022.

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues relevant to the Borough and the Notes. According to outside counsel, to be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9) an entity must, among other things, (A) qualify under the definition of "municipality" in the U.S. Bankruptcy Code and (B) be specifically authorized to file a municipal bankruptcy petition by the state in which the entity is located. KBRA also has been informed by outside counsel that the Borough would qualify as a "municipality" under the U.S. Bankruptcy Code. Thus, the first requirement of the Chapter 9 eligibility analysis is satisfied for the Borough.

With respect to the second requirement of Chapter 9 eligibility which relates to specific state authorization for filing a municipal bankruptcy petition, Act 47 of the Commonwealth of Pennsylvania (the "State"), known as the "Distressed Municipalities Act," generally governs the municipal bankruptcy process in the State with respect to "municipalities" as defined in Act 47. KBRA understands that the Borough would qualify as a "municipality" under Act 47, and thus may be authorized by Act 47 to file a municipal debt adjustment action pursuant to the U.S. Bankruptcy Code if it satisfies the specific conditions included in Act 47. Additionally, under current Pennsylvania law the Borough would only be permitted to file a Chapter 9 petition if it has sought and received the permission of the State Department of Community and Economic Development (DCED) to file such a petition. Thus, assuming the Borough meets the conditions provided under Pennsylvania law to file a Chapter 9 petition, and meets the other requirements of U.S. Bankruptcy Code Section 109, KBRA understands that the Borough would be permitted to file a Chapter 9 petition under current law.

Act 47 also contains provisions and circumstances under which a municipality, as defined under State law, may be declared to be in "financial distress," making it eligible for interest-free loans, grants, and/or administrative assistance from the DCED, among other provisions. Under certain circumstances, the DCED would have the authority to recommend a plan to increase taxes or other sources of revenues, reduce services, or reschedule obligations. It should be noted that if a state of fiscal emergency was declared for the Borough, and a receivership put in place for the Borough as permitted under Act 47, only the court-appointed receiver is permitted to file a Chapter 9 petition, and only upon receiving written authorization of the DCED. KBRA notes that Act 47 is a comprehensive state insolvency scheme and relevant case law applying Act 47 is limited. As such, a full analysis of the permutations of Act 47 is beyond the scope of this assessment.

It is KBRA's understanding that the 2020 Notes and 2013 Notes are each secured by a pledge of the Borough's full faith, credit, and taxing power under the relevant Loan Agreement (a "General Obligation Pledge"). It is also KBRA's understanding that a General Obligation Pledge securing the applicable Notes would likely not qualify as a pledge of special revenues under Section 902(2) of the U.S. Bankruptcy Code. Thus, by operation of the U.S. Bankruptcy Code, in the event of a Chapter 9 petition by the Borough, it is possible that the Borough's pledge would be cut-off, avoided, and/or of no practical effect, the noteholders' claims against the Borough would be unsecured, and funds collected by the Borough would no longer be subject to the General Obligation Pledge. The Borough also likely would not be required to continue paying regularly scheduled debt service on the Notes and may pursue a restructuring of the Notes as a part of a plan of adjustment.

KBRA notes, however, that under Pennsylvania law, the relevant Ordinances, and section 4.02(d) of each Loan Agreement, the Borough is required to deposit the monies for payment of the principal and interest on the Notes into a separate sinking fund account or accounts established under each Loan Agreement for the applicable Notes prior to the time such payments on the Notes become due and payable. Assuming the Borough duly makes such deposits, Pennsylvania law contains language that indicates that such amounts, and proceeds of investment thereon, if any, once deposited into the sinking fund account are subject to a perfected security interest for benefit of the noteholders without further action, according to Pennsylvania law. 53 Pa. C.S.A. § 8221(b). KBRA understands that a court may find that such a lien may not be terminated by the filing of a bankruptcy petition, requiring that the funds collected to pay the principal and interest on the Notes and deposited in the sinking fund prior to the filing of the bankruptcy petition be used by the Borough for that intended purpose. This would mean that the noteholders would likely be treated as secured creditors in a bankruptcy proceeding with respect to amounts actually deposited into the sinking fund prior to the filing of the bankruptcy petition. The U.S. Bankruptcy Code's automatic stay, however, would continue to apply, which could result in the Borough not distributing the monies to noteholders to pay principal and interest on the Notes as such amounts come due during the pendency of a bankruptcy proceeding. We also note that the monies pass through the hands of the Borough before being deposited into the sinking fund account and the Borough could discontinue making deposits into the sinking fund, although such action may be contrary to Pennsylvania law.

Under Chapter 9, it also is KBRA's understanding that the preference provisions contained in the U.S. Bankruptcy Code do not apply to payments made with respect to bonds or notes by a municipality, meaning that a debtor municipality like the Borough may not claw back payments made on the Notes that were made within the 90 days preceding the filing of its bankruptcy petition.

KBRA notes that there is no certainty regarding how a bankruptcy or other court examining the Borough or the issuance of the Notes would ultimately rule on the issues set forth above. Additionally, KBRA understands from discussions with outside legal counsel that no controlling judicial precedent exists analyzing the issues set forth in this Bankruptcy Assessment. KBRA, in consultation with outside counsel, has reviewed relevant secondary sources and case law to assess how a court reviewing a properly presented case would analyze the Notes. There can be no guarantee, however, as to how a bankruptcy court, with its considerable equitable powers would ultimately rule.