

Borough of Doylestown, PA

Issuer: Borough of Doylestown, PA

Affirmed	Rating	Outlook
General Obligation Notes, 2020 Series	AA	Stable
General Obligation Notes, 2013 Series	AA	Stable

Methodology:

[U.S. Local Government GO Methodology](#)

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Rating Summary: KBRA has affirmed the long-term rating of AA with a Stable Outlook on the Borough of Doylestown’s (“the Borough”) outstanding General Obligation Notes, 2020 Series (“2020 Notes”) and General Obligation Notes, 2013 Series (“2013 Notes”). The debt is 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. The management team and 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 a target of 10% of general fund operation revenues.

The overall debt burden of the Borough remains low. Direct borrowings total \$7.3 million, inclusive of the issuance of the 2020 Notes in early January 2020. Debt service accounts for a low 1.9% of governmental expenditures in FY 2019. In September 2020, the Borough began renovating the vacated PennDOT building which will be repurposed as a Municipal Complex that will house the Borough’s staff and serve as the headquarters of the Central Bucks Regional Police Department (“CBRPD”). Renovations are projected to be completed by September 2021. Approximately 52.7% of the Borough’s debt will amortize in ten years. The Borough’s fixed costs accounted for a manageable 8.4% of governmental expenditures in FY 2019, which includes its contributions to the Non-Uniform Employees’ pension fund and its proportionate share of the CBRPD pension fund. The Borough has historically contributed to its pension funds at the actuarially determined level. State aid has historically covered the full minimum municipal obligation (MMO) of the Non-Uniformed pension fund and a portion of the Police Pension fund MMO, whose costs are shared among the Boroughs of Doylestown, New Britain, and Chalfont. Inclusive of the 2020 Notes, the Borough’s total direct and overlapping debt remains low at 1.2% of full market value and \$1,831 on a per capita basis. Total net pension liability is a low 0.38% of the Borough’s full market value.

In KBRA’s view, the financial flexibility and liquidity position of the Borough is strong. The Borough had a General Fund surplus of approximately \$370,000 in FY 2019 and operations have been generally balanced over the last five years. The Borough increased its total property tax rate by 0.824 mills to 15.999 mills in 2020, to provide additional revenues to pay the debt service interest payments on the 2020 Notes. General fund revenues primarily consist of earned income tax (30.3%), charges for services (19.5%) and property tax (18.4%). As of FYE 2019, available general fund reserves accounted for 21% of annual expenditures (with 11% representing the unassigned fund balance and 10% representing the Borough’s emergency reserve fund) and liquidity across governmental funds equivalent to 173 days cash on hand provide a strong level of financial flexibility in KBRA’s view.

The Borough’s 2020 revenue sources were negatively impacted by the COVID-19 pandemic. Total general fund revenue initially budgeted at \$6.7 million is projected to be 7.9% under budget at \$6.2 million. Earned Income Tax, Local Services Tax and Real Estate Transfer Tax are projected to decrease collectively by \$82,750 in 2020 and are projected to remain flat in 2021 relative to the 2020 Budget. The Borough projects an estimated \$344,000 loss in revenue due to the introduction of free parking during the first four months of the pandemic. FY 2020 general fund total expenditures initially budgeted at \$6.8 million are projected to be 1.6% under budget at \$6.7 million which reflects modest expenditure reduction measures. The Borough will draw approximately \$400,000 on fund balance in FY 2020. Estimated ending fund balance for FY 2020 is approximated as \$1.1 million. The Borough has not been allocated any CARES Act funds from the County and has incurred \$15,000 in direct costs (sanitation and PPE costs) due to the pandemic.

KBRA continues to view the Borough’s municipal resource base as strong. The Borough is located approximately 30 miles north of Philadelphia and 80 miles southwest of New York City situated within Bucks County. The local economy continues to benefit from proximity to the diverse southern New Jersey and greater Philadelphia area employment base. Per capita income at \$51,080 in 2019 is 148.7% of the State average and the poverty rate at 8.1% remains well below the State level. Population growth has declined marginally since 2010, by 1.22%, reflecting the developed and mature tax base. Before the COVID-19 pandemic, Bucks County’s unemployment rate trended below the State. In 2019, the unemployment rate was at 3.8% for the County, 4.4% for the State and 3.7% for the nation. As of November 2020, the County’s unemployment rate has declined to 5.3%, after spiking to 15% in April 2020, and remains below the State and national unemployment rates. While full market value per capita remains a robust \$158,172, assessed value and full market value have grown modestly since 2010, by 0.6% and 1.5% CAGR, respectively.

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

KBRA continues to monitor the direct and indirect impacts of the COVID 19 virus. Please refer to KBRA ongoing research on the topic [here](#) for more information. The rating was affirmed because of the following key credit considerations:

Credit Strengths

- 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

- Continued drawdown of accumulated capital project reserves, which could diminish financial flexibility in the future.

Rating Sensitivities

- | | |
|--|---|
| <ul style="list-style-type: none"> ▪ Significant strengthening of the Borough’s tax base and improved socioeconomic indicators. ▪ Continued improvement of the Borough’s financial position. | + |
| <ul style="list-style-type: none"> ▪ Trend of structural imbalance in operations. ▪ Significant deterioration in level of reserves or adverse developments in tax base. | - |

ESG Considerations

When relevant to credit, ESG factors are incorporated into the credit analysis in the same manner as all other credit-relevant factors. Among the ESG factors that have impact on this rating analysis are:

- Discussion in RD 4: Municipal Resource Base reflects Social Factors. KBRA has examined the following areas for this credit: trends in population, education, income, poverty levels, employment, unemployment and the economic impacts of COVID-19.

More information on ESG Considerations for the Public Finance sector can be found [here](#).

Rating Determinants (RD)

1. Management Structure and Policies	AA
2. Debt and Additional Continuing Obligations	AAA
3. Financial Performance and Liquidity	AA
4. Municipal Resource Base	AA

Debt Metrics
FY 2019

Overall Direct and Indirect Debt Per Capita	\$	1,831
Overall Debt as a % of Full Market Value		1.2%
Debt Amortization Within 10 Years		52.7%
Fixed Costs as a % of Governmental Expenditures		8.4%

Note: includes January 2020 borrowing.

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

FYE Dec. 31	2015	2016	2017	2018	2019
<i>Summary Statement of Income</i>					
Revenues	\$ 5,483	\$ 5,201	\$ 5,631	\$ 6,009	\$ 6,430
Expenditures	5,656	5,686	6,015	6,264	6,432
Excess (Deficiency) of Operating Revenues Over Expenditures	(173)	(485)	(384)	(256)	(1)
Other Financing Sources (Uses)	206	332	310	347	372
Net Change in Fund Balance	33	(153)	(75)	92	370
Beginning Fund Balance	1,207	1,240	1,087	1,012	1,104
Ending Fund Balance	\$ 1,240	\$ 1,087	\$ 1,012	\$ 1,104	\$ 1,474
<i>Unassigned/Spendable Fund Balance and Liquidity</i>					
Total Fund Balance	1,240	1,087	1,012	1,104	1,474
Spendable Fund Balance					
Restricted Fund Balance	59	84	81	111	125
Emergency Reserve	548	520	563	601	643
Unassigned Fund Balance	632	483	368	392	706
<i>as a % of Expenditures</i>	11.2%	8.5%	6.1%	6.3%	11.0%
Unassigned Fund Balance + Emergency Reserve	1,180	1,003	931	993	1,349
<i>as a % of Expenditures</i>	20.9%	17.6%	15.5%	15.9%	21.0%
Cash and Cash Equivalents - GF	889	671	619	665	1,205
<i>as a % of Expenditures</i>	15.7%	11.8%	10.3%	10.6%	18.7%
Cash and Cash Equivalents - Govt Funds	2,221	1,365	1,058	2,449	3,461
Govt Expenditures	7,589	6,558	7,209	7,289	7,289
<i>as a % of Expenditures</i>	29.3%	20.8%	14.7%	33.6%	47.5%
DCOH	107	76	54	123	173

Note: Emergency Reserve is held within the Assigned Fund Balance in FY 2018, prior years was held in the Committed Fund Balance.

Source: Audited Financial Statements

For additional information, please see KBRA's [report](#) dated January 28, 2020.

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