

## Borough of Doylestown, PA

### Issuer: Borough of Doylestown, PA

| Affirmed                              | Rating | Outlook |
|---------------------------------------|--------|---------|
| 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, 2013 Series. The debt is secured by a pledge of the Borough's full faith and credit and, under Pennsylvania statute, 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 totaled \$2.5 million at FYE 2018 with debt service accounting for a low 1.9% of governmental expenditures. The Borough is planning to borrow an additional \$5.0 million in January 2020 to support capital projects related to Broad Street Gateway Park, Central Bucks Regional Police Department (CPRPD) Headquarters, and Borough Hall. The anticipated borrowing will extend the Borough's debt profile with 47.7% amortizing in ten years; down from 72.8%. The Borough's fixed costs accounted for a manageable 8.1% of governmental expenditures in FY 2018, 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 proposed issuance, the Borough's total direct and overlapping debt remains low at 1.2% of full market value and \$1,876 on a per capita basis. Total net pension liability is a low 0.3% of the Borough's full market value.

In KBRA's view, the financial flexibility and liquidity position of the Borough remains strong. The Borough had a General Fund surplus of approximately \$92,000 in FY 2018 and operations have been generally balanced over the last five years. The Borough increased its total property tax rate by 2.0 mills to 15.175 mills in 2019, providing additional general fund revenues. FY 2019 was estimated in Q4 to end with a modest general fund surplus. The debt service levy will increase marginally in 2020 as a result of the Borough's anticipated borrowing. General fund revenues primarily consist of earned income tax (32%), charges for services (22%) and property tax (15%). Unassigned fund balance is 6.3% of general fund expenditures. The Borough's emergency fund within the general fund (in assigned fund balance) represented 9.6% of general fund expenditures; per the Borough's policy, the reserve fund must equal at least 10% of operating revenues. Together, these represent a strong 15.9% of expenditures. At FYE 2018, liquidity across governmental funds provides a strong 123 days cash on hand. Further, liquidity is enhanced by the approximately \$4.9 million capital projects fund which provides 246 days cash on hand; management has noted there is no formal policy restricting the use of this reserve.

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 \$49,468 in 2018 is 146% of the State average and the poverty rate at 7.8% remains well below the State level. Population growth has declined marginally since 2010, reflecting the developed and mature tax base. While full market value per capita remains a robust \$155,742, assessed value and full market value have grown modestly since 2010.

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 Rating Strengths**

- Strong wealth and income levels with 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, inclusive of anticipated January 2020 borrowing.

**Key Rating Concerns**

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

**Drivers for Rating Change**

- |  |   |
|--|---|
| • Significant strengthening of the Borough’s tax base and improved socioeconomic indicators. | + |
| • Continued 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.        |   |

**Rating Sensitivites**

A trend of strengthening socioeconomic indicators in combination with sustained growth in the Borough’s tax base could be supportive of a higher rating level with increased wealth and tax revenue levels.

Significant and recurring excess operating revenues which result in sustained growth in the general fund balance and reserve levels could be supportive of a higher rating level.

A trend of significant and recurring operating deficits resulting in the material erosion of reserves and liquidity would reduce the Borough’s financial flexibility and could be impetus for downward rating movement.

A trend of weakening general fund reserve levels in combination of weakening developments in the tax base, primarily assessed values, could lead to downward rating movement.

**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  |

| <b>Debt Metrics</b>                             |                |
|---|----------------|
|   | <b>FY 2018</b> |
| Overall Direct and Indirect Debt Per Capita     | \$ 1,876       |
| Overall Debt as a % of Full Market Value        | 1.2%           |
| Debt Amortization Within 10 Years               | 47.7%          |
| Fixed Costs as a % of Governmental Expenditures | 8.1%           |

Note: includes anticipated January 2020 borrowing.

| <b>Borough of Doylestown, PA</b>   |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| General Fund Summary Statement of Income, Unassigned Fund Balance, and Liquidity<br>(Modified Accrual Basis in \$000s) |             |             |             |             |             |
| <b>FYE Dec. 31</b>   | <b>2014</b> | <b>2015</b> | <b>2016</b> | <b>2017</b> | <b>2018</b> |
| <i>Summary Statement of Income</i>   |             |             |             |             |             |
| Revenues   | \$ 5,494    | \$ 5,483    | \$ 5,201    | \$ 5,631    | \$ 6,009    |
| Expenditures   | 5,773       | 5,656       | 5,686       | 6,015       | 6,264       |
| Excess (Deficiency) of Operating Revenues<br>Over Expenditures   | (279)       | (173)       | (485)       | (384)       | (256)       |
| Other Financing Sources (Uses)   | 207         | 206         | 332         | 310         | 347         |
| Net Change in Fund Balance   | (71)        | 33          | (153)       | (75)        | 92          |
| Beginning Fund Balance   | 1,278       | 1,207       | 1,240       | 1,087       | 1,012       |
| Ending Fund Balance  | \$ 1,207    | \$ 1,240    | \$ 1,087    | \$ 1,012    | \$ 1,104    |
| <i>Unassigned/Spendable Fund Balance and Liquidity</i>   |             |             |             |             |             |
| Total Fund Balance   | 1,207       | 1,240       | 1,087       | 1,012       | 1,104       |
| Spendable Fund Balance   |             |             |             |             |             |
| Restricted Fund Balance  | 47          | 59          | 84          | 81          | 111         |
| Emergency Reserve  | 549         | 548         | 520         | 563         | 601         |
| Unassigned Fund Balance  | 610         | 632         | 483         | 368         | 392         |
| <i>as a % of Expenditures</i>  | 10.6%       | 11.2%       | 8.5%        | 6.1%        | 6.3%        |
| Unassigned Fund Balance + Emergency Reserve  | 1,160       | 1,180       | 1,003       | 931         | 993         |
| <i>as a % of Expenditures</i>  | 20.1%       | 20.9%       | 17.6%       | 15.5%       | 15.9%       |
| Cash and Cash Equivalents - GF   | 843         | 889         | 671         | 619         | 665         |
| <i>as a % of Expenditures</i>  | 14.6%       | 15.7%       | 11.8%       | 10.3%       | 10.6%       |
| Cash and Cash Equivalents - Govt Funds   | 1,681       | 2,221       | 1,365       | 1,058       | 2,449       |
| Govt Expenditures  | 6,771       | 7,589       | 6,558       | 7,209       | 7,289       |
| <i>as a % of Expenditures</i>  | 24.8%       | 29.3%       | 20.8%       | 14.7%       | 33.6%       |
| DCOH   | 91          | 107         | 76          | 54          | 123         |

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 [surveillance report](#) dated January 16, 2019.

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