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Summary:

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

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West Brandywine Twp Mun Auth (West Brandywine Twp) gtd swr (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its underlying rating (SPUR) on West Brandywine Township Municipal Authority, Pa.'s sewer revenue debt, issued for West Brandywine Township, one notch to 'AA-' from 'A+'. The outlook is stable.

The rating action reflects our opinion of the township's improved available fund balance, which is now above $500,000, coupled with its changing to modified-accrual accounting from cash accounting.

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 also secures the bonds unconditionally for the repayment of principal and interest as they come due. The township collects pledged property taxes from its entire property tax base; we do not believe there are limitations on the fungibility of resources available to pay debt service. Therefore, we rate the township's limited-tax general obligation (GO) debt at the same level as our view of its general creditworthiness.

Our credit opinion reflects the township's full-faith-and-credit pledge, which we consider the stronger of the two pledges.

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

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- 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 2017;
- Very strong budgetary flexibility, with available reserves in fiscal 2017 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.6% of total governmental-fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong;

- Weak debt-and-contingent-liability position, with debt service carrying charges at 9.3% of expenditures and net direct debt that is 112.6% of total governmental-fund revenue; and
- Strong institutional framework score.

Budgetary flexibility, while very strong as a percent of expenditures, is slightly above nominal levels, which we believe could pressure the rating if budgetary performance were to weaken. The township's strong economy has remained stable, and it is a stabilizing rating factor.

Strong economy

We consider West Brandywine's economy strong. The township, with an estimated population of 7,603, is in Chester County in the Philadelphia-Camden-Wilmington MSA, which we consider 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 $84,527. Overall, market value was stable during the past year at $642.7 million in fiscal 2017. The county unemployment rate was 3.6% in 2017, below commonwealth and national averages.

The township, about 35 miles west of Philadelphia and 25 miles northwest of Wilmington, Del., has been actively promoting local development. Assessed value (AV) has remained steady since fiscal 2013. AV currently totals $418.8 million. Officials expect slight AV increases during the next few fiscal years due to retail development planned along U.S. Route 322, as well as a planned 55-year-old-and-over community of 226 single-family units; construction should begin sometime in 2019.

Adequate management

We view the township's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights include management's:

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

Management currently lacks formal long-term capital planning outside of a vehicle-and-equipment-replacement schedule, as well as a formal investment policy.

Strong budgetary performance

West Brandywine's budgetary performance is strong, in our opinion. The township had operating surpluses of 4% of expenditures in the general fund and 4.8% of expenditures across all governmental funds in fiscal 2017. Roughly 76% of general fund revenue comes from taxes, split between income and property taxes.

Fiscal 2017 budgeted expenditures totaled $3.1 million, using $53,000 of fund-balance appropriation to balance the budget. West Brandywine finished fiscal 2017 with a much-larger-than-expected $118,000 general fund surplus than the $2,000 projected. Officials attribute the larger-than-expected surplus to various expenditures coming in close to $98,000 underbudget.

Fiscal 2018 budgeted general fund expenditures totaled $3.2 million with a very slight $11,000 general fund surplus. Officials currently report most line items are tracking the budget closely. Barring any unforeseen circumstances throughout the rest of the fiscal year, management expects to finish fiscal 2018 with close to breakeven operations. Officials report the township does not expect any major differing budgetary assumptions heading into the fiscal year; as of this time, it does not plan to spend down available reserves. Therefore, we expect budgetary performance in the general fund and governmental funds will likely remain strong.

Very strong budgetary flexibility

West Brandywine's budgetary flexibility is very strong, in our view, with available reserves in fiscal 2017 of 21% of operating expenditures, or $614,000.

Beginning in fiscal 2017, the township has transitioned to accrual-based accounting from cash accounting.

The current real estate millage rate is 2.3 mills, well below the 14-mill cap. Officials report one levied mill would generate roughly an additional $419,000 in revenue. We believe this affords additional flexibility if the need were to occur. However, officials report that they did not raise taxes in fiscal 2018 and that they do not plan to do so during the next few years. Officials report the only millage increase is in the fire appropriations fund, which shows a 0.308 millage increase in the preliminary fiscal 2019 draft budget to sustain the fund for the next five fiscal years. The township has not recently made any layoffs, and there are none planned.

With breakeven operations expected in fiscal 2018 and officials reporting they do not currently plan to spend down fund balance significantly during the next few fiscal years, we believe budgetary flexibility will likely remain very strong. However, if available reserves were to go below $500,000, this could result in downward rating pressure.

Very strong liquidity

In our opinion, when removing restricted cash, West Brandywine's liquidity is very strong, with total government available cash at 44.6% of total governmental-fund expenditures and 4.8x governmental debt service in fiscal 2017. In our view, the township has strong access to external liquidity if necessary.

West Brandywine has issued three GO-backed water-and-sewer bonds during the past decade, which we believe provides it with strong access to very strong liquidity, if needed. Its 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. In addition, it has not needed to issue TRANs for cash-flow purposes since. We expect cash flow will likely 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 9.3% of total governmental-fund expenditures, and net direct debt is 112.6% of total governmental-fund revenue.

All of West Brandywine's $12.3 million of direct debt outstanding is fixed-rate debt to maturity. The township does not have any direct-purchase debt. Officials do not currently have any additional debt plans for, at least, the next five years.

West Brandywine's pension contributions totaled 5.9% of total governmental-fund expenditures in fiscal 2017.

West Brandywine contributes to two pension plans: nonuniformed and police pension plans. The nonuniformed plan is a single-employer, defined-contribution pension plan that covers full-time, nonuniformed employees. The police plan is a single-employer, defined-benefit pension plan that covers full-time police officers. The township has made its full annual required pension contributions to both plans. The police plan, the largest plan, is 77% funded. The township does not provide other postemployment benefits (OPEB).

Strong institutional framework

The institutional framework score for Pennsylvania municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of the strong local economy. We believe very strong liquidity provides further rating stability. Therefore, we do not expect to change the rating during the outlook's two-year period.

Upside scenario

Barring no deterioration in any other credit factors, if available reserves were to increase, with management sustaining the higher levels, we could raise the rating further. Furthermore, if management were to demonstrate strong adherence to financial management practices or if it were to adopt stronger policies, we could raise the rating.

Downside scenario

Holding all other factors equal, if budgetary performance were to weaken, contributing to lower budgetary flexibility or liquidity, with no plans to correct it, 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
- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria.

Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.