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Update

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Westtown Township, PA

Update - Moody's Upgrades Westtown Township, PA's GO to Aa2 from Aa3

Summary Rating Rationale

Moody's Investors Service has upgraded Westtown Township, PA's General Obligation rating to Aa2 from Aa3. The upgrade affects $14.3 million in rated debt outstanding.

The Aa2 reflects the sizeable growth in the township's General Fund reserve levels over the past three years, strengthening its financial position and liquidity levels. The rating further incorporates the township's manageable debt burden, moderately sized tax base, and high wealth levels.

Credit Strengths

» Strong liquidity and reserve position

» Moderately sized and wealthy tax base

» Manageable debt burden

Credit Challenges

» Exposure to economically sensitive revenues

Rating Outlook

Outlooks are not usually assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Accelerated and diversified growth of tax base

» Significant increase in reserves

Factors that Could Lead to a Downgrade

» Failure to maintain structural balance resulting in deterioration of finances

» Weakening of regional economy leading to significant loss in tax base

Key Indicators

Exhibit 1
Exhibit 1

Westtown (Township of) PA	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 1,355,085	$ 1,339,968	$ 1,269,815	$ 1,244,503	$ 1,303,949
Full Value Per Capita	$ 125,158	$ 123,762	$ 117,282	$ 114,944	$ 120,435
Median Family Income (% of US Median)	199.1%	199.1%	199.1%	199.1%	199.1%
Finances					
Operating Revenue ($000)	$ 5,942	$ 6,374	$ 6,413	$ 7,756	$ 7,805
Fund Balance as a % of Revenues	13.4%	9.0%	18.3%	28.2%	36.0%
Cash Balance as a % of Revenues	13.5%	9.0%	7.6%	28.2%	36.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 19,860	$ 16,188	$ 15,921	$ 15,218	$ 14,310
Net Direct Debt / Operating Revenues (x)	2.7x	2.2x	2.3x	1.9x	1.7x
Net Direct Debt / Full Value (%)	1.5%	1.2%	1.3%	1.2%	1.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	N/A	N/A	N/A
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	N/A	N/A	N/A

Source: Moody's Investors Service - Note: The township does not have a defined benefit pension liability.

Detailed Rating Considerations

Economy and Tax Base: Moderately Sized and Wealthy Tax Base Expected to Remain Stable

Located in Chester County (Aaa Stable), the residential suburb is approximately 35 miles west of Philadelphia (A2 stable). The moderately sized $1.4 billion tax base has experienced modest growth since 2013, after a period of economic stagnation. Demand for residential housing has picked up, and management expects the township's assessed valuations to grow by approximately $30 million after assessments of two 32 unit condo buildings, a 50 single family housing development, and a 15 single family housing development are completed in fiscal 2016. Given the residential nature of the township, the top 10 taxpayers are comprised of large apartment complexes and a few commercial entities making up a modest 7.8% of assessed value. The township is expected to see some modest growth in the near term, and remain stable in the medium term.

The township's wealth levels are strong, with per capita income and median family income at 180.2% and 199.1% of the US median, respectively. Poverty levels in the township are very low at 2.3% or approximately six times less than the state and seven times less than the US.

Financial Operations and Reserves: Healthy Financial Cushion Provides Budgetary Flexibility

The township's finances will remain healthy in the near term. Available General Fund Balance reserves grew from $572,000, or a sufficient 9% of General Fund revenue, in fiscal 2011, to $2.8 million, or a strong 36% of General Fund revenue, in fiscal 2014. Driving this positive trend is a combination of prudent fiscal management and increase in property taxes. The percentage of earned income taxes accounting for total revenues was approximately 29%, which has remained stable, if not growing, year over year. Although revenue composition is exposed to economic volatility, Moody's believes that the township's regional economy, propped up by high wealth levels and its close proximity to major metropolitan areas will remain stable. Additionally, the township has a Capital Reserve Fund to support General Fund operations if necessary. In fiscal 2014, there was $5 million in available reserves.

In fiscal 2015, unaudited budget numbers reveal that General Fund reserves rose to $4.2 million, or an increase of 53% over the previous year. Revenues increased by 8.4% to $13.5 million and expenditures increased by 2.3% to $11.3 million. Earned income taxes increased by 4.7% to $2.4 million. The Capital Reserve Fund increased by $800,000 to $5.8 million. There was no tax millage increase in fiscal 2015.

For fiscal 2016, the preliminary budget incorporates a flat budget from fiscal 2015 with no increase in tax millage. Earned income taxes is budgeted flat for fiscal 2016 at $2.3 million. Management estimates an operating surplus again in fiscal 2016, albeit, not at the magnitude of growth seen in fiscal 2015. Capital Reserve Funds is anticipated to remain flat at $5.8 million.

LIQUIDITY

In fiscal 2014, the township's cash position was $3.8 million, or a strong 36.2% of General Fund revenues. The township's unaudited fiscal 2015 budget shows a cash position of $4.4 million. Liquidity is expected to remain healthy in the near term.

Debt and Pensions: Debt to Remain Manageable with Additional Issuance in Near Term

The township's $14.3 million direct debt burden is a manageable 1.1% of full value. Both the General Fund and Sewer Fund make transfers to the Debt Service fund, which pays for the township's debt service. In fiscal 2014, the township paid $1.3 million or 16.6% of its operating expenditures in debt service payments, of which $885,000 was paid from the sewer fund. While the sewer system is self-supporting, the debt in its entirety is guaranteed by the unlimited general obligation pledge of the township.

The township will likely issue debt in the near term, which will include an advance refunding for Series 2011 and two capital projects related to bridge repair and a public works building. The two projects combined will not exceed $2.5 million and management has capped the entire issuance at $10 million. Still with the added debt issuance, the direct debt burden will remain manageable at approximately 1.8% of full value.

DEBT STRUCTURE

All debt is fixed rate.

DEBT-RELATED DERIVATIVES

The township is not party to any derivatives or swaps.

PENSIONS AND OPEB

The township participates in a defined contribution plan administered by the Pennsylvania Municipal Retirement System (PMRS). The plan is funded by the Commonwealth of Pennsylvania at 5% of salary for all eligible employees. The township does not have any defined benefit pension liabilities. Furthermore, because PMRS has its own separate audit which is audited by Pennsylvania's Auditor General, the township does not separately audit or include pension information in its audits.

The township does not offer other post-employment benefits.

Management and Governance

In 2014, the township enacted a formal fund balance policy which mandates that the General Fund to maintain a minimum 12% of budgeted revenues in available fund balance, with the target being no less than 15% of budgeted revenues. Also incorporated into this fund balance policy is a capital improvement plan for both the Sewer Capital Reserve and the Annual Road Improvement Program. The Annual Road Improvement Program will be funded by a General Fund appropriation of no less than 10% of budgeted revenues in addition to the Liquidity Fuels State Funds allocation. The Sewer Capital Reserve will be funded by an annual budgeted appropriation from the Sewer Fund of no less than 12% of budgeted revenue for that year, with the target being 15% of budgeted revenues. Moody's views enactment of a formal fund balance policy and a capital improvement plan as a credit positive.

Pennsylvania cities have an institutional framework score of Aa, or strong. Cities enjoy the authority to adjust the property tax millage for debt service without limitation. While many cities rely on economically sensitive revenues such as income taxes, they often have the flexibility to increase property taxes to offset any declines in these revenues. Organized labor does not have a strong presence in the state, and state labor law gives bargaining groups significant leeway to seek arbitration. most cities have been challenged to control and predict labor costs.

Legal Security

Series 2011 and 2012 are secured by the township's unlimited general obligation pledge.

Use of Proceeds

N/A

Obligor Profile

Westtown Township is located 35 miles west of Philadelphia (A2 Stable), in Chester County (Aaa Stable). The township has a population of 10,864.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

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