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

<table>
<thead>
<tr>
<th>Westtown (Township of) PA</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economy/Tax Base</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$1,355,085</td>
<td>$1,339,968</td>
<td>$1,269,813</td>
<td>$1,244,503</td>
<td>$1,303,949</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$125,158</td>
<td>$123,762</td>
<td>$117,282</td>
<td>$114,944</td>
<td>$120,435</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>199.1%</td>
<td>199.1%</td>
<td>199.1%</td>
<td>199.1%</td>
<td>199.1%</td>
</tr>
<tr>
<td><strong>Finances</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$5,942</td>
<td>$6,374</td>
<td>$6,413</td>
<td>$7,756</td>
<td>$7,805</td>
</tr>
<tr>
<td>Fund Balance as % of Revenues</td>
<td>13.4%</td>
<td>9.0%</td>
<td>18.3%</td>
<td>28.2%</td>
<td>36.0%</td>
</tr>
<tr>
<td>Cash Balance as % of Revenues</td>
<td>13.5%</td>
<td>9.0%</td>
<td>7.6%</td>
<td>28.2%</td>
<td>36.7%</td>
</tr>
<tr>
<td><strong>Debt/Pensions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$19,860</td>
<td>$16,188</td>
<td>$15,921</td>
<td>$15,218</td>
<td>$14,310</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (%)</td>
<td>2.7x</td>
<td>2.2x</td>
<td>2.3x</td>
<td>1.9x</td>
<td>1.7x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>1.5%</td>
<td>1.2%</td>
<td>1.3%</td>
<td>1.2%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Revenues (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Moody’s - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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 suburban area 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.
MOODY’S INVESTORS SERVICE

© 2016 Moody’s Corporation, Moody’s Investors Service, Inc., Moody’s Analytics, Inc. and/or their licensors and affiliates (collectively, “MOODY’S”). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY’S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES (“MIS”) ARE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY’S (“MOODY’S PUBLICATIONS”) MAY INCLUDE MOODY’S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY’S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY’S OPINIONS INCLUDED IN MOODY’S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY’S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY’S ANALYTICS, INC. CREDIT RATINGS AND MOODY’S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY’S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY’S ISSUES ITS CREDIT RATINGS AND PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY’S CREDIT RATINGS AND MOODY’S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY’S CREDIT RATINGS OR MOODY’S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY’S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY’S from sources believed to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided “AS IS” without warranty of any kind. MOODY’S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY’S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY’S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody’s Publications.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY’S.

To the extent permitted by law, MOODY’S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY’S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER INFORMATION IS GIVEN OR MADE BY MOODY’S IN ANY FORM OR MANNER WHATSOEVER.

Moody’s Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody’s Corporation (“MCO”), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody’s Investors Service, Inc. (each referred to hereinafter as “MOODY’S”) have, prior to assignment of any rating, agreed to pay to Moody’s Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS’s ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading “Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy.”

Additional terms for Australia only: Any publication in Australia of this document is pursuant to the Australian Financial Services License of MOODY’S affiliate, Moody’s Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody’s Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to “wholesale clients” within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY’S that you are, or are accessing the document as a representative of, a “wholesale client” and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to “retail clients” within the meaning of section 761G of the Corporations Act 2001. MOODY’S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY’S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody’s Japan K.K. (“MJKK”) is a wholly-owned credit rating agency subsidiary of Moody’s Group Japan K.K., which is wholly-owned by Moody’s Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody’s SF Japan K.K. (“MSFJ”) is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.