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Northampton (Township of) PA

Update to credit analysis

Summary

Northampton Township, PA (Aa3) benefits from its very close proximity to Philadelphia, PA (A2 negative), and is a wealthy commuter suburb of the city. Though primarily rural, the township maintains some commercial centers within its bounds and has seen growth in the value of its entire tax base, both residential and commercial, through an active economic revitalization. While the township's audited cash position is somewhat narrow, most of the township's cash outside of the general fund is fungible, and the slim cash position in the general fund reflects the timing of real estate and earned income tax revenue. The finances, when a holistic view is taken, are healthy, with consistent operating surpluses over the past several years.

The township is taking on new enterprise risk through its purchase of a golf and country club facility. This is a non-essential enterprise. Though current reasonable projections show that the facility will support its own operations, if the general fund were to be required to support the project, any such support would weigh negatively on the township's current credit profile. Favorably, a dedicated mill levy, already in place, will support debt service going forward, and the township's overall debt burden will remain very manageable at 0.9% of full value.

Credit strengths

» Very strong, wealthy tax base, 12 miles from center city Philadelphia

» Continued reports of economic development that are supported by increased tax revenue and full value growth

» Prudent management practices

» Manageable debt and pension burden

Credit challenges

» Township will take on enterprise risk through its purchase of a golf and country club

» Slim cash position during the last quarter of each fiscal year, though TANs have not been necessary in the past decade

Rating outlook

Outlooks are typically not assigned to municipalities with this amount of debt outstanding.

Factors that could lead to an upgrade

» Substantial, sustained growth in cash reserves

Factors that could lead to a downgrade

» Any evidence that the general fund is required to support the golf enterprise or county club facility, either for debt service or for operations

» A weakening of the township's current overall cash position

» Any appropriation of general fund reserves that are not quickly remediated

Key indicators

Exhibit 1

Northampton (Township of) PA	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$4,584,501	$4,566,982	$4,641,662	$4,645,333	$4,718,565
Population	39,739	39,675	39,646	39,562	39,562
Full Value Per Capita	$115,365	$115,110	$117,078	$117,419	$119,451
Median Family Income (% of US Median)	189.1%	187.1%	186.9%	186.3%	186.3%
Finances					
Operating Revenue ($000)	$16,475	$16,660	$17,860	$18,008	$18,085
Fund Balance ($000)	$2,867	$2,231	$1,388	$2,013	$2,354
Cash Balance ($000)	$1,704	$1,245	$434	$892	$1,211
Fund Balance as a % of Revenues	17.4%	13.4%	7.8%	11.2%	13.0%
Cash Balance as a % of Revenues	10.3%	7.5%	2.4%	5.0%	6.7%
Debt/Pensions					
Net Direct Debt ($000)	$19,259	$17,710	$26,658	$24,817	$22,729
3-Year Average of Moody's ANPL ($000)	$18,949	$21,977	$25,126	$25,769	$28,172
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.6%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.5x	1.4x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.5%	0.6%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.3x	1.4x	1.4x	1.6x

Source: Moody's Investors Service, Northampton Township audited financial statements

Profile

Northampton Township is located in Bucks County (Aaa negative), 20 miles north of the City of Philadelphia (A2 negative) and 15 miles west of Trenton, NJ (Baa1 stable). The township serves a population of roughly 40,000 people.

Detailed credit considerations

Economy and tax base: affluent, mostly residential, suburban tax base

The township's $4.7 billion tax base is mostly residential, though there is a growing commercial presence as well. The township has enjoyed modest residential and commercial redevelopment in recent years, and has re-zoned certain areas to accommodate more density and taller building structures. Along with steady growth in its commercial centers - notably, a 90,000 square foot mixed use shopping center will be added to the tax rolls in 2019 - the township also continues to preserve its open space, so as not to lose its rural appeal. The township's approved housing developments, estimated to completed by 2019, could add as much as $150,000 to the township's overall property tax collections.

Resident income levels are well above-average, with median family income of 186% of the national level, as of the latest U.S. census data. Median home value has not quite regained its pre-recession level, but is approaching that record high again at $392,000, or 212% of the US median. Poverty is notably low at just 2.7%.

Financial operations and reserves: satisfactory, though slim at fiscal year end

The township ended fiscal 2017 with an operating surplus of $479,000, bringing overall operating fund balance to $2.35 million, or roughly 13% of revenue. While relatively modest, the operating fund balance has grown by close to $850k (+53%) over the past two years, given structurally balanced operations in 2016 and 2017. Prior years' operating deficits had been largely a result of transfers for capital improvements; debt is notably low, and so the township has used its general fund for pay-go capital investment.

The township's target for fund balance is 15%, and while 2018 operatings are tracking positively to budget, management expects the current years' surplus to again be very moderate at around $200k. This would bring reserves to the 14% range, which is somewhat slim for this credit profile. Mitigating a narrow operating fund reserve (general fund + debt service) is the fact that the township maintains several funds outside of the general fund that are cash positive and fungible.

The township will use a portion of the proceeds from its 2018 bond issuance to purchase a golf and country club that is already operating within its borders. Township management projects that the club will be able to provide for its own operating expenses, as well as associated debt service. While audited financial information indicates that the enterprise will support its own operating costs, Moody's recognizes that the dedicated tax levy will be available for debt service on all of the township's debt, including the new issuance. The non-essentiality of this enterprise is a concern, as is the primary nature of this business, which is catering and events. Should the township need to financially support this enterprise in any way, aside from appropriation of its existing debt levy, there would be a negative impact on the township's credit profile.

LIQUIDITY

The township's liquidity position is particularly narrow during the last months of the year (i.e. at the time of its fiscal close) given its property tax billing cycle and its heavy reliance on earned income tax. Both of these revenue streams begin to generate cash receipts in the spring, but bring in very little cash in the fourth quarter. The township's unrestricted audited cash position is thus notably weak at just $771k, or 6.7% of revenue.

When we include fungible cash outside of the general fund, this year end position improves to $5.3 million, or 28% of revenue. The township's average monthly cash position across all of its funds is close to $7.6 million, or 40% of operating revenue.

Debt and pensions

The township's debt burden is modest, even given its 2018 debt issuance. Post-sale, the total debt burden is just 0.9% of full value.

Given a rapid payout on previously issued debt, the township has structured its new issuance to keep debt service relatively level and at an amount that's covered by its dedicated debt service levy, which generates annual revenue of about $2.6 million. This dedicated levy is expected to cover debt service in its entirety after 2024. Prior to that time, the township's general fund contribution should be very modest ($200k), if required at all, and debt service will be supported by a capitalized interest fund through mid-2021.

Total fixed costs, consisting of debt service, pension plan contributions, and other post-employment benefits, are manageable at about 20% of operating revenue as of 2017.

DEBT STRUCTURE

All of the township's debt is fixed rate and amortizes over the long term.

DEBT-RELATED DERIVATIVES

The township is not party to any derivative agreements.

PENSIONS AND OPEB

The township has a modest pension burden and has met or exceeded its actuarially determined contribution in each of the last four years. The township sponsors two single-employer, defined-benefit plans, one for Police and one for Non-Uniformed personnel, and as of January 2015, the township established a defined-contribution plan for all new Non-Uniformed hires.

In fiscal 2017, the township's combined contributions for the two defined-benefit plans totaled $1.66 million. The township's adjusted net pension liability (ANPL) for fiscal 2017, under Moody's methodology for adjusting reported pension data, was approximately $27 million, or 1.5x operating revenues and 0.55% full value.

The township also sponsors other post-employment benefits (OPEB), which it funds on a pay-as-you-go basis.

Management and governance

Management has demonstrated a conservative approach to budgeting, which has historically lead to positive variances in budget-to-actual outcomes. Favorably, township officials have signed contracts with union and non-union employees with moderate increases over the near term, a factor that should contain expenditures pressures. Its police contract was set for five years, but expires in 2020.

Notably, management accounts for all of its funds separately (i.e. library, fire, etc), and each operating fund maintains an associated capital fund. Management reports that it intends to fund a capital reserve for its new country club enterprise as well.

Management increased both its general fund millage rate as well as its dedicated debt service mill rate in 2018. With a current general fund millage at 5.25 mills, management still has considerable room to utilize millage increases as a future revenue-enhancing measure if necessary.

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 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.

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