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Summary:

East Vincent Township, Pennsylvania; General Obligation

Primary Credit Analyst:
Steven E Waldeck, Boston + 1 (617) 530 8128; steven.waldeck@spglobal.com

Secondary Contact:
Moreen T Skyers-Gibbs, New York + 1 (212) 438 1734; moreen.skyers-gibbs@spglobal.com

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Credit Profile		
US$9.7 mil GO bnds ser 2021 due 12/01/2031		
Long Term Rating	AA/Stable	New
East Vincent Twp GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to East Vincent Township, Pa.'s roughly $9.7 million series 2021 general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the township's existing GO debt.

The township's full-faith-and-credit pledge, including its ability to levy ad valorem taxes without limitation as to rate or amount, secures the series 2021 GO bonds and existing GO debt.

Officials intend to use series 2021 bond proceeds to refund series 2016 and 2012 GO bonds for interest savings with no extension to maturities.

Credit overview

The rating incorporates our view of the township's extremely strong general fund reserves, equal to 130% of fiscal 2019 expenditures, and history of solid operating performance. Assets benefit from its robust property tax base, with a history of strong growth, and inclusion in the Philadelphia metropolitan area.

Nonetheless, we expect the effects of COVID-19 and the ensuing economic stoppage to result in ongoing uncertainty and, likely, a protracted economic recovery. Our recent economic forecast and updates highlight these sentiments. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Staying Home For The Holidays," published Dec. 2, 2020; "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," published Jan. 6, 2021; and "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels," published Feb. 1, 2021, on RatingsDirect.)

Should labor market pressure increase and lead to material decreases in income-tax collections, reserves could decrease, though not likely in a manner that materially affects credit quality. While the township maintains comparatively high debt, operating performance reflects its ability to manage these obligations with rapid amortization. Pension plans are also funded in full.

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

- Strong economy, with access to a broad and diverse Philadelphia-Camden-Wilmington metropolitan statistical area (MSA);
- Adequate financial management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results we expect could deteriorate in the near term relative to fiscal 2019, which closed with operating surpluses in the general fund and at the total governmental-fund level;
- Very strong budgetary flexibility, with high available fund balance in fiscal 2019 at 130% of operating expenditures;
- Very strong liquidity, with total government available cash at 3.1x total governmental-fund expenditures and 12.8x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 23.9% of expenditures and net direct debt that is 261.8% of total governmental-fund revenue, but rapid amortization, with 77.5% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

The stable outlook reflects S&P Global Ratings' view of the limited effect of COVID-19 on the township and ample reserves. Therefore, we do not expect credit quality to deteriorate significantly due to the effects of COVID-19 on the township or other factors over a one- to two-year outlook.

Environmental, social, and governance (ESG) factors

Absent implications of COVID-19, we consider social risks in-line with the sector standard. We also view governance and environmental risks as in-line with our view of the sector as a whole.

Stable Outlook

Downside scenario

All else being equal, we could lower the rating if the budget were to become structurally imbalanced, resulting in significant reserve drawdowns over multiple years.

Upside scenario

All else being equal, we could raise the rating if the local economy were to continue to grow, management were to institute more-formal management policies, and debt were to continue to decrease.

Credit Opinion

Strong economy

We consider East Vincent's economy strong. The township, with a population estimate of 7,268, is in Chester County in the Philadelphia-Camden-Wilmington MSA, which we consider broad and diverse. Projected per capita effective buying income is 122% of the national level and per capita market value is $91,059. Overall, market value was stable during the past year at $661.8 million in fiscal 2021. County unemployment was 3.2% in 2019, pre-COVID-19.

The township is about 22 miles northwest of Philadelphia. Residents maintain ample employment access throughout the greater MSA, and the township carries a diverse income tax base of its own with some institutional stability due to its Veterans' Center being a leading employer.

We think economic recovery from COVID-19 and the recent associated recession will be slow with unemployment remaining above precrisis levels until after 2023 and with reduced economic activity during the next few years. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Staying Home For The Holidays," published Dec. 2, 2020; "Outlook For U.S. Local Governments: Revenue Pressures Mount And Choices Get Harder," published Jan. 6, 2021; and "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels," published Feb. 1, 2021.) County unemployment increased to 11.6% in April 2020 before it decreased to 4.3% in November 2020 due to COVID-19, both of which were below the state's rate.

Assessed value has grown steadily. The tax base remains poised for growth despite the current economic environment with 91 new homes planned for construction in 2021 on the former site of Jones Motor Co. Redevelopment is currently before the township with conditional-use approval for 163 adult units, 113 single-family units, and 110 townhouses.

Adequate management

We view the township's financial 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.

Budgets reflect conservative assumptions and trend analysis. Management makes monthly reports on year-to-date and budget-to-actual information to the township board, which amends the budget as needed. Management's informal reserve policy keeps reserves at a minimum six months' expenditures, and it exceeds this balance with no explicit plans to spend down reserves. The township does not maintain formal long-term capital-improvement or financial plans or debt- or investment-management policies.

Adequate budgetary performance

East Vincent's budgetary performance is adequate, in our opinion. The township had operating surpluses at 11.4% of expenditures in the general fund and 14.8% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from fiscal 2019 results during the next few fiscal years.

The township's record of achieving operating surpluses allowed it to accumulate sizable reserves. Adequate budgetary performance and strong reserves have allowed management to repay debt ahead of schedule and support significant capital projects. Officials balanced the fiscal years 2020 and 2021 budgets without using reserves. Despite its comparatively large dependence on income taxes, collections are stable relative to the budget. The total budget is on pace with prior years, according to management. Due to, what we consider, extremely strong general fund reserves at 130% of fiscal 2019 expenditures, management has not significantly adjusted the budget to date. Expenditure flexibility is available if necessary, according to management.

Management has sustained strong results due to tax base growth, recent property tax rate increases, and expenditure control relative to the budget. Earned-income taxes account for nearly 50% of general fund revenue, excluding transfers in, followed by property taxes at nearly 25% and real-estate-transfer taxes at 6%.

With new developments coming online in 2021, coupled with projected population growth, we imagine the need to expand services will likely pose challenges. However, with its robust tax base and financial flexibility, we expect the township will likely be well equipped to manage challenges during, at least, the next few fiscal years.

Very strong budgetary flexibility

East Vincent's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2019 at 130% of operating expenditures, or $4.3 million. We expect available fund balance will likely remain more than 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Reserve balances could decrease slightly in fiscal 2021 due to one-time capital projects; we, however, do not expect a decrease during the next few fiscal years that would reduce reserves to less than 75% of expenditures, which we view as a positive credit factor.

Very strong liquidity

In our opinion, East Vincent's liquidity is very strong, with total government available cash at 3.1x total governmental-fund expenditures and 12.8x governmental debt service in fiscal 2019. In our view, the township has strong access to external liquidity if necessary.

In our opinion, the township has strong access to external liquidity, if necessary, due to GO bond issuance during the past 20 years. The township does not have any exposure to significant contingent liabilities that could materially pressure liquidity.

Weak debt-and-contingent-liability profile

In our view, East Vincent's debt-and-contingent-liability profile is weak. Total governmental-fund debt service is 23.9% of total governmental-fund expenditures, and net direct debt is 261.8% of total governmental-fund revenue. Officials plan to retire about 77.5% of direct debt during 10 years, which is, in our view, a positive credit factor.

Wastewater revenue fully supports the township's self-supported series 2016 GO bonds, included on the wastewater-revenue fund's balance sheet. We understand officials could issue an additional $5 million of debt for wastewater system upgrades, increasing overall capacity. The township expects user fees to fully self-support this debt. Therefore, we do not expect it to have a material effect on the overall debt profile.

Pension and other-postemployment-benefit (OPEB) highlights

- In our view, the township does not have any exposure to material risks associated with retirement-benefit liabilities.
- Both pension plans were more than 100% funded as of the latest audit.
- East Vincent does not provide OPEB.

In our view, contributions were low at 2.2% of fiscal 2019 total governmental-fund expenditures.

The township maintains two single-employer defined-benefit plans: the police pension plan and the nonuniform pension plan, which were 128.3% and 107.4% funded, respectively, with a 6% discount, which we consider conservative.

Strong institutional framework

The institutional framework score for Pennsylvania non-home-rule cities and all boroughs and townships is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 263. Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments