

## Borough of Lansdowne, PA

Affirmed	Rating	Outlook
General Obligation Debt	A+	Stable

**Methodology:**

[U.S. Local Government GO Methodology](#)

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**Rating Summary:** The Borough of Lansdowne’s (the “Borough”) outstanding Notes (the “Notes”) are general obligations of the Borough and are secured by its full faith and credit pledge. Under Pennsylvania statutes, the Borough has the power to levy ad valorem property taxes on all taxable property, without limitation as to rate or amount, to pay debt service on the Notes. The Notes were issued in connection with a borrowing from the Delaware Valley Regional Financing Authority (DelVal), a loan program which provides financing for Pennsylvania municipalities and school districts.

The Borough is located in the northeastern portion of Delaware County, approximately six miles west from

downtown Philadelphia, with a population of 10,621. The Borough’s resource base is relatively strong with high levels of income per capita, unemployment levels that are historically lower than the Commonwealth, and easy access to major employment markets in Philadelphia.

Management structure and policies of the Borough are moderately strong, with a history of well-established practices and consistency in personnel. The Borough reports its financial results on a modified accrual basis of accounting which KBRA views positively. The Township does, however, lack formal written policies for many of its management procedures.

KBRA continues to view the Borough’s overall debt burden as being moderate. The Borough administers a single-employer defined benefit pension plan for its police and a defined contribution retirement plan for its non-uniformed employees and had a funded ratio of 86.5% as of December 31, 2017.

Because of improved financial performance and liquidity over the last few years, the Borough reduced its reliance on cash flow borrowing to support operations against the seasonality of tax receipts. In FY 2017, the Borough decreased its tax anticipation notes (TANs) to \$445,000 and management anticipates no short-term cash borrowing in the medium term, which KBRA views favorably. In FY 2017, unassigned general fund balance trended positively in the last few years, increased to \$868,253, however, management projected that FY2018 will end with a slight deficit due to increases in public safety expenditures. The Borough is looking to improve its financial flexibility going forward by enacting an Earned Income Tax.

The Stable Outlook reflects KBRA’s expectation that the Borough will continue to manage its financial operations in order to maintained balanced operations and satisfactory reserve levels. The outlook also reflects the availability of additional capacity under the Borough’s tax levy limit which could be tapped to support future operating needs.

**Key Rating Strengths**

- Capacity to increase property tax millage under operating limits and demonstrated willingness to raise property taxes.

**Key Rating Concerns**

- Lack of formal written policies for maintenance of general fund cash reserve levels and other financial management practices
- Stagnant growth in the property tax base and population.

**Drivers for Rating Change**

<ul style="list-style-type: none"> <li>• Significant increase in the level of unrestricted reserves in the general fund.</li> <li>• Substantial improvement in the Borough’s financial operations.</li> </ul>	<b>+</b>
<ul style="list-style-type: none"> <li>• Trend of structural imbalance in operations.</li> <li>• Notable decline in assessed valuation of property.</li> </ul>	<b>-</b>

<b>Key Ratios</b>	
	<b>FY 2017</b>
Overall direct and indirect debt per capita	\$1,738
Overall debt as a % of full market value	3.8%
Debt amortization within 10 years	91.7%
Days Cash on Hand	85
Unassigned GF Balance as a % of GF Expenditures	10.9%
Fixed costs as a % of total governmental expenditures	17.4%

**Rating Determinants (RD)**

1. Management Structure and Policies	A
2. Debt and Additional Continuing Obligations	AA-
3. Financial Performance and Liquidity Position	A+
4. Municipal Resource Base	A+

**Rating Determinant 1: Management Structure and Policies**

KBRA continues to view the Borough’s management structure as moderately strong for the size and scale of its operations. This assessment is primarily driven by the Borough’s financial disclosure practices, budget process, history of conservative revenue and expenditure projections, and established practice of monthly monitoring of budget-to-actual financial performance. However, this rating assessment also reflects the Borough’s lack of formal written policies regarding its financial management procedures, including maintenance of a certain level of general fund reserves, fiscal monitoring, and development of a capital improvement plan, which KBRA views as a weakness.

The Borough reports its financial results on a modified accrual basis of accounting which KBRA views positively. The current Borough manager has held the position for more than five years, and is actively involved in managing the day-to-day financial operations along with a dedicated staff.

Based on the foregoing, KBRA views the Borough’s governance and management structure and policies as being consistent with an A rating determinant rating.

**Rating Determinant 2: Debt and Additional Continuing Obligations**

KBRA continues to view the Borough’s overall debt burden as moderate. The Borough had \$2.9 million in direct debt outstanding as of FYE 2017, which includes a 2017 private placement of approximately \$235,000, not rated by KBRA, to upgrade its street lights to a more energy efficient system. Management has indicated that the savings generated will offset the additional debt service requirements. The private placement was part of a regional initiative lead by the Delaware Valley Regional Planning Commission to upgrade lighting systems in approximately 35 communities across the Delaware Valley.

The Borough has \$18.5 million of overall debt in FY 2017 inclusive of the its \$15.5 million allocable share of the total debt outstanding from Delaware County and the William Penn School District. This equates to moderate debt ratios with a rapid amortization schedule as seen in Figure 1 below.

**Figure 1**

<b>Borough of Lansdowne Debt Ratios</b>	
<b>Fiscal Year 2017</b>	
<b>KBRA Metric</b>	<b>Ratio</b>
Overall direct and indirect debt per capita	\$1,738
Overall debt as % of 2017 full market value of property	3.8%
Debt amortization within 10 years	91.7%
Debt amortization within 20 years	100%
Direct debt service as a % of total governmental expenditures	9.8%

Source: Borough of Lansdowne Audited Financial Statements FY 2017

To fund its cash flow needs in the past, the Borough has issued TANs in January of each year which are then due in March. As the Borough’s liquidity level improved in recent years TANs issuance has declined correspondingly from \$700,000 in FY 2012 to \$445,000 in FY 2017. The FY 2018 budget showed no TANs being issued for the year and management anticipates continuing to no longer issue TANs in the medium term, reflecting continued improvements in liquidity positions, which KBRA views positively.

## Borough Pension Plans and OPEBs

The Borough administers a single-employer defined benefit plan for its police and a defined contribution plan for its non-uniformed employees. As of December 31, 2017, the police pension plan had 31 members (15 active & 16 inactive currently receiving benefits) and a funded ratio of 86.5%. In FY 2017, the Borough's total contribution to the police pension plan was \$398,107 of which \$266,119 was funded by the Commonwealth. The Borough's total pension contribution represents 4.6% of total governmental expenditures in FY 2017.

The Borough funds its retiree healthcare for police on a pay-as-you-go basis. In FY 2017, total payments related to healthcare coverage were \$255,308 or 4.6% of total governmental expenditures. Without consideration of state aid, the Borough's total fixed costs, defined as debt service, pension payments, and pay-as-you-go OPEB payments, equaled \$1.5 million or 17.4% of FY 2017 total governmental expenditures.

## Delaware Valley Finance Authority

There are certain swap-related risks allocable to the Borough, in that DelVal can assess any swap termination costs of the program on a proportionate basis to the Borough and other borrowers under the program. The swap agreements with the various swap counterparties include automatic termination for rating downgrade triggers for the counterparties and DelVal. As of September 30, 2018, the aggregate mark-to-market termination value allocable to the Borough, in the event that all DelVal swaps were terminated, would be a positive \$286,039.

Based on the foregoing, KBRA views the Borough's debt and continuing obligations as being consistent with an AA- Rating Determinant Rating.

## Rating Determinant 3: Financial Performance and Liquidity

KBRA views the financial position of the Borough as moderately strong. Lansdowne has a history of balanced operations and a strong level of unassigned fund balance. The Borough has been able to maintain its fund balance levels due to its willingness to increase its operating millage and charges for services over the last several years. The Borough's internal liquidity position is strong, and has regular access to the capital markets for its cash flow needs in the past.

## FY 2017 Operations

Unassigned fund balance in the general fund increased to \$868,253 or 10.9% of expenditures in FY 2017, which KBRA considers to be strong. Revenues increased by 1.7% due to increases in real estate taxes and charges for services. Expenditures increased 2.5% due to increased public works and community development (see Figure 2).

**Figure 2**

General Fund FY 2013-FY 2017					
Revenues, Expenditures and Changes in Fund Balance (Modified Accrual Basis) (\$'000)					
	2017	2016	2015	2014	2013
General Fund Revenue	\$7,338	\$7,218	\$7,092	\$6,753	\$6,610
<i>percent change</i>		1.7%	1.8%	5.0%	2.2%
General Fund Expenditures	\$7,933	\$7,742	\$7,614	\$7,193	\$7,066
<i>percent change</i>		2.5%	1.7%	5.9%	1.8%
Surplus (Deficit) from Operations	(595)	(525)	(521)	(440)	(456)
Total Other Financing Sources (Uses)	\$698	\$323	\$602	\$400	(\$353)
Net Change in Fund Balance	103	(201)	80	(41)	(809)
Total Fund Balance	\$868	\$765	\$966	\$886	\$927
Unassigned Fund Balance	\$868	\$765	\$966	\$886	\$927
<b>Unassigned Fund Balance as a % of General Fund Expenditures</b>	<b>10.9%</b>	<b>9.9%</b>	<b>12.7%</b>	<b>12.3%</b>	<b>13.1%</b>

Source: Borough of Lansdowne Audited Financial Statements FY 2013 - FY 2017

**FY 2018 Update**

The Borough’s FY 2018 general fund budget was \$7.3 million. Borough management projects that FY 2018 will end with a slight deficit due to increases in public safety. The Borough anticipates FY 2019 budget to perform strongly due to the possibility of introducing an Earned Income Tax (EIT), which management has expressed would generate approximately \$300,000-\$400,000 in additional revenues to its financial base, allowing greater financial flexibility which KBRA views as a positive.

**Diversity of Revenues**

The Borough’s general fund revenue diversity remains unchanged from the prior fiscal year. The Borough’s largest source of revenue is real estate taxes which accounted for 63.4% of FY 2017 general fund revenues. The Borough operates under a 30.0 mill levy limit for operations, and in 2018 millage is 12.7654 which has increased by approximately 20% since 2010. If enacted, the addition of an EIT would further diversify the Borough revenue sources.

**Liquidity Position**

The Borough has reduced its cashflow borrowing in FY 2017 and eliminated the use of external liquidity support commencing in FY 2018, which KBRA views as positive. In FY 2017 Lansdowne’s liquidity remains strong with 85 days cash on hand.

Based on the foregoing, KBRA views the Borough’s financial performance and liquidity as being consistent with an A+ Rating Determinant rating.

**Rating Determinant 4: Municipal Resource Base**

KBRA continues to view Lansdowne’s municipal resource base as relatively strong. Reflected by higher per capita income levels and a poverty level historically lower when compared to the commonwealth and nation. KBRA’s view also reflects the lack growth in the Borough’s property tax base, low full market value per capita, and lack of population growth (see Figure 3).

**Figure 3**

	2016 Population	Chg from 2010	2016 Age Dependency Ratio <sup>1,2</sup>	Chg from 2010	2016 Population with B.A. Degree or higher <sup>2</sup>	Chg from 2010	2016 Poverty Level <sup>2</sup>	Chg from 2010	2016 Income per capita	Chg from 2010
Borough of Lansdowne	10,621	-0.4%	53.3%	4.5	35.3%	-1.6	11.6%	3.5	\$31,887	5.1%
Delaware County	563,402	0.7%	60.9%	0.8	38.4%	3.7	10.9%	1.2	\$36,333	20.2%
Pennsylvania	12,784,227	0.6%	62.1%	2.4	30.8%	3.7	12.9%	-0.5	\$31,272	18.6%
United States	323,127,515	4.5%	61.3%	2.5	31.3%	3.1	14.0%	-1.3	\$31,128	19.5%
Borough of Lansdowne as % of Delaware County			<b>87.4%</b>		<b>91.9%</b>		<b>106.4%</b>		<b>87.8%</b>	
Borough of Lansdowne as % of Pennsylvania			<b>85.8%</b>		<b>114.6%</b>		<b>89.9%</b>		<b>102.0%</b>	
Borough of Lansdowne as % of United States			<b>86.8%</b>		<b>112.8%</b>		<b>82.9%</b>		<b>102.4%</b>	

Source: U.S. Census Bureau is used as the source in order to provide a consistent comparison among different units of government.

<sup>1</sup> Age dependency ratio is the sum of the population under 18 yrs and over 65 yrs divided by persons age 18 to 64 yrs.

<sup>2</sup> Year over year change shown as nominal change in percentage points.

In 2017, the Borough’s full market value remained steady at \$487.3 million and on a per capita basis increased to \$45,883, a level which KBRA still considers to be low. The top ten taxpayers in the Borough account for 7.1% of the Lansdowne’s 2017 assessed valuation which KBRA considers very diverse.

Historically, the County’s unemployment rate has trended closely with the Commonwealth’s unemployment rate. As of September 2018, Delaware County’s annual unemployment rate was 3.8%, which is lower than the commonwealth at 3.9% but slightly higher than the national unemployment rate at 3.7%.

Though the Borough is nearly fully developed, management has made efforts to improve and repurpose existing infrastructure in Lansdowne’s downtown district to increase the regional draw of the area. With the assistance of a \$5 million grant from the Pennsylvania Redevelopment Assistance Capital Program, the Borough continues to redevelop its downtown district. The Borough attracted several large retail stores and restaurants through the upgrade of various downtown facilities.

Based on the foregoing, KBRA views the Borough’s municipal resource base as being consistent with an A+ Rating Determinant rating.

## **Bankruptcy Assessment**

KBRA has consulted with external counsel regarding the statutory framework of municipal bankruptcy in the Commonwealth of Pennsylvania (the "State"). It is KBRA's understanding that to be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), an entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code and must be specifically authorized to file a municipal bankruptcy petition by the State in which it is located. KBRA further understands that with respect to the Borough, the Borough qualifies as a "municipality" under the Bankruptcy Code. With respect to specific state authorization, Act 47 of the Commonwealth of Pennsylvania, known as the "Distressed Municipalities Act," governs the process, and thus the ability of the Borough to declare bankruptcy under the Federal Bankruptcy Code. Act 47 includes specific conditions under which a municipality may file a municipal debt adjustment action pursuant to the Bankruptcy Code. Act 47 also contains provisions and circumstances under which a municipality may be declared to be in "financial distress," making it eligible for interest-free loans, grants, and/or administrative assistance from the State Department of Community and Economic Development (DCED). The DCED would have the authority to recommend a plan to increase taxes or other sources of revenues, reduce services, or reschedule obligations and the Borough would only be permitted under Pennsylvania law to file a Chapter 9 petition if it has sought and received the permission of the DCED to file such a petition. Thus, assuming the Borough meets the conditions provided under Pennsylvania law to file a Chapter 9 petition, and meets the other eligibility requirements of Bankruptcy Code Section 109, KBRA understands that it would be permitted to file a Chapter 9 petition.

### **Conclusion:**

KBRA has affirmed the long-term rating to A+ with a Stable Outlook for the Borough of Lansdowne, PA's general obligation debt.

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