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Lower Merion Township, Pennsylvania; General Obligation

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Credit Profile		
US$39.915 mil GO bnds ser 2010A,B,C due 09/15/2031		
Long Term Rating	AAA/Stable	New
Lower Merion Twp GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating, and stable outlook, to the township of Lower Merion, Pa.'s series 2010A and 2010B general obligation (GO) bonds and series 2010C GO Build America Bonds and affirmed its 'AAA' rating, with a stable outlook, on the township's existing GO debt.

The rating reflects our view of the township's:

- Highly affluent residential community with easy rail and highway access to Philadelphia's central business district and the northeast corridor;
- Deep and diverse property tax base, reflected in extremely strong per capita market values;
- Strong financial management, which has led to the maintenance of a strong financial position and very strong reserves; and
- Moderate debt levels as a percent of market value.

The township's full faith and credit GO pledge secures the bonds. Officials plan to use series 2010A bond proceeds to refund portions of series 2003B, 2004A, 2004B, 2005C, 2006A, and 2007 GO bonds outstanding and series 2010B and 2010C bond proceeds to finance projects in the township's capital improvement plan (CIP) in fiscals 2010 and 2011. The township will designate the series 2010C bonds as Build America Bonds, and it has elected to receive a direct-pay issuer subsidy from the U.S. Treasury. The township has not pledged the subsidy as security for the bonds.

Lower Merion Township, with a population estimate of 58,740, is an affluent residential community that spans 23.64 square miles in Montgomery County. The township benefits from convenient access to Philadelphia, 10 miles east, via a regional rail line with seven different stops in the township and national rail service connecting to major northeast corridor business hubs. The township has a diverse employment base that includes interests in health care, education, financial services, and retail. Township unemployment, at 5.6% as of January 2010, remains well below commonwealth and national rates. Income levels are, in our opinion, strong with household and per capita effective buying income indicators at 189% and 263%, respectively, of national levels.

The township's financial position remains, in our opinion, very strong. The fiscal 2009 budget originally included a $2.1 million fund balance appropriation; but unaudited results show the township using only $600,000 of fund balance for the year. While the township saw increases in real estate and business taxes, both permit fees and real estate transfer taxes were down significantly for the year. The township realized its significant expenditure savings due to 20 vacant positions, the elimination of 10 full- and part-time positions, and lower-than-expected debt service costs due to a 2009 refunding. Unreserved, undesignated fund balance should total $11.2 million, or about 22% of expenditures, which we consider very strong and well above policy levels.

The fiscal 2010 budget includes a 2.7% property tax increase and the use of $1.7 million of fund balance, in-line with historical practices. The revenue budget is about 0.9% less than fiscal 2009, including lowered assumptions for real estate transfer taxes, investment income, and permit fees. The expenditure budget is about 1.6% less than fiscal 2009, including a 3.6% increase for salaries and a 2.5% increase for benefits spending. Fiscal 2010 is also the first year in which officials will eliminate the $1.3 million subsidy to the solid waste fund from the general fund budget. The budget assumes ending the fiscal year with an unreserved, undesignated general fund balance of about 17% of expenditures, which we still consider very strong.

Standard & Poor's considers Lower Merion Township's management practices "strong" under its Financial Management Assessment (FMA) methodology, indicating practices are strong, well embedded, and likely sustainable. Some of these practices include trend analysis, strategic planning, and monthly monitoring and quarterly reporting of the budget. The board passed a new policy in October 2007 to provide semiannual updates of the township's five-year forecast. The township also prepares a six-year rolling CIP, tied to the financial plan, that it updates annually. Management has strengthened its undesignated fund balance policy of maintaining a minimum of 12% of expenditures by implementing its own goal range of 15%-18%.

Due to overlapping debt from the township school district, the overall net debt burden is $8,244 per capita, which we consider high, or 3.5% of market value, which we consider moderate. Direct debt is, in our opinion, a more-moderate $2,017 per capita, or less than 1% of market value. Carrying charges are 14% of expenditures, and amortization is above average with officials planning to retire 63% of debt over 10 years and 98% over 20 years. The township does not plan to issue additional debt before 2012.

Outlook

The stable outlook reflects Standard & Poor's expectation that the township should continue to maintain its very strong financial position in accordance with its stated financial policies. We also expect the direct debt burden should remain at levels we consider moderate as the township finances its additional capital needs. Finally, the township's diverse economic base and very strong wealth and income levels further support the outlook.

Economy

Lower Merion Township continues to benefit from its access to Philadelphia and its participation in the broader regional economy. The local employment remains diverse with interests in health care, education, financial services, and retail. Leading township employers include:

- Main Line Health System (4,247 employees),
- Susquehanna International Group (1,767),
- Bryn Mawr College (1,646), and
- Maguire Insurance Agency (1,094).

Officials estimate nearly 35% of its workforce will commute into Philadelphia for employment.

The township saw an increase in residential assessment appeals in 2009, leading to a 0.5% assessed value (AV) decrease in fiscal 2010. AV, however, still totals a sizable $7.48 billion in fiscal 2010. Market value totals $13.85 billion, or $236,567 per capita, a level we consider extremely strong. The tax base also remains, in our opinion, very diverse with the 10 leading taxpayers accounting for just 5% of AV.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008