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Summary:

Lower Merion Township, Pennsylvania; General Obligation

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US\$25.075 mil GO rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	New
Lower Merion Twp		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Lower Merion Twp		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

The 'AAA' long-term rating on Lower Merion Township, Pa.'s general obligation (GO) bonds reflects the township's:

- Highly affluent residential community, with easy rail and highway access to Philadelphia's central business district and the northeast corridor;
- Very high wealth and income levels;
- Deep and diverse 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 reserve levels; and
- Moderate debt levels as a percentage of market value.

The 'AAA' rating on the township's outstanding parity obligations has been affirmed.

The township's full faith and credit GO pledge secures the bonds. Management will use bond proceeds to refund a portion of the series 2001, 2002A, 2003A, and 2003B bonds and fund capital improvement projects.

Lower Merion Township (population, 58,740) is an affluent 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 within the township and national rail service connecting to major northeast corridor business hubs.

The township has a diverse employment base that includes Main Line Health Systems (4,240 employees), Lower Merion School District (1,624), Bryn Mawr College (1,706), Susquehanna International Group (1,050) and Maguire Insurance Agency (698). Unemployment remained low in 2008 at 3.5%, lower than state and national averages. The township is a very wealthy bedroom community, as evidenced by per capita effective buying income at 288% of the national average. Median household effective buying income was 213% of the state level and 219% of the national level.

The township's tax base remains strong. In 2009, estimated township's market value maintained at \$14.8 billion

similar to the previous year's level. Market values have grown 23% in the past five years. Per capita market value is extremely strong at \$252,636. The tax base is very diverse, with total assessed value below average at 5%. The tax base is the second largest in the state behind significantly larger Philadelphia, but ahead of Pittsburgh.

The township's financial position remains strong. In 2007, the township eliminated a \$1.7 million budget gap and posted a surplus of \$500,000 at year-end. Management identified budgetary savings in salaries and wages, fringe benefits, materials and supplies, and other cost-containment strategies. The unreserved fund balance grew to \$11.2 million, or a very strong 24% of general fund expenditures; is well above the 12% policy; and has remained at similar levels in past years. Management is anticipating the unaudited fiscal 2008 to close with a \$400,000 surplus, increasing the fund balance to \$11.6 million. The fiscal 2008 budget included a \$2.1 million budget gap, which management eliminated. Management anticipated \$900,000 in budgetary savings, but realized \$2.8 million.

Highlights of the revenue performance include:

- \$2 million, or 38% increase over fiscal 2007, in the business tax mainly attributed to a more efficient business tax collection program;
- \$700,000, or 2.7% increase over fiscal 2007, in real estate tax to 3.61 mills;
- \$100,000, or 9% increase over fiscal 2007, in state highway aid revenues; and
- \$100,000, or 10% increase over fiscal 2007, in franchise fee revenues.

The fiscal 2009 adopted general fund budget totals \$52.7 million. The township's budget gap is estimated at \$2.1 million. The budget includes a real estate tax increase to 3.68 mills that is projected to generate \$500,000 in new revenue, various fee and rate increases, \$1.2 million anticipated budgetary savings for expenditures, and \$800,000 of expenditure reductions approved by the board of commissioners. The fund balance would remain very strong even if levels decreased to \$9.5 million, or 18% of expenditures.

Lower Merion Township's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that the township's 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 capital plan that is tied into the financial plan and updated annually. Management has strengthened its undesignated fund balance policy of 12% of expenditures minimum by implementing its own goal range of 15%-18% and looking into revising its debt policy in the near future.

Overall debt is high (mainly attributable to the township's school district overlapping debt) at \$7,960 per capita, offset by strong per capita income, and debt as a percentage of market value is moderate at 3.2%. The debt structure is conservative, with 65% of the township's direct debt retired in the next 10 years and all debt by 2029. The 2009-2010 capital budget projects spending of approximately \$27 million and includes funding sources from federal, state, sewer, and county grant funds. The six-year 2009-2014 capital improvement program totals approximately \$155 million and includes funding from bond proceeds, municipal grants, and private development funds. Future financing may include a new money GO bond issue of approximately \$17 million in 2010 and additional bond issues in the next two to three years.

Outlook

The stable outlook reflects the township's affluence and high income levels. The outlook also reflects the expectation of continued strong management of its finances and capital improvement program, along with the maintenance of healthy reserve levels.

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