

Rating Update: Moody's upgrades Hempfield Township, PA's GO rating to Aa2

Global Credit Research - 05 May 2015

Upgrade affects \$7.9 million in rated GO debt

HEMPFIELD (TOWNSHIP OF) PA
Cities (including Towns, Villages and Townships)
PA

NEW YORK, May 05, 2015 --Moody's Investors Service has upgraded to Aa2 from Aa3 the rating on Hempfield Township, PA's general obligation (GO) debt. The Aa2 rating applies to approximately \$7.9 million in rated debt outstanding.

SUMMARY RATING RATIONALE

The upgrade to Aa2 reflects the township's strong operating history leading to a significant build-up reserves; large and growing tax base; low debt burden and average wealth levels.

OUTLOOK

Outlooks are generally not assigned to local governments with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Material increase in wealth levels
- Continued growth in General Fund reserves

WHAT COULD MAKE THE RATING GO DOWN

- Weakening of the township's tax base and socioeconomic profile
- Large declines in reserves and liquidity
- Significant increase in debt burden

STRENGTHS

- Large and favorably located Pittsburgh area tax base
- Ample General Fund reserves and liquidity
- Low debt burden

CHALLENGES

- High fixed costs related to OPEB

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SIZEABLE TAX BASE WITH ROOM AND DEMAND FOR GROWTH

Hempfield Township's \$2.8 billion tax base will remain strong over the next two to three years due to recent population growth and its proximity to the city of Pittsburgh (A1 positive). The township is located in Westmoreland County (Aa2) 30 miles southeast of Pittsburgh. The tax base has shown growth in recent years, with a five-year

compound annual increase of 3.3%. Growth in the tax base can be attributed to its proximity to Pittsburgh, which is easily accessible given various major highways nearby the township. The township has also developed interest given its relatively low property tax rate, which has not been increased in over 20 years, and relatively low cost of living. As a result, population has seen modest increases over the past decade and median family income has risen to 111% of the nation, up from 99% in 1990. Management anticipates modest future growth in the tax base, and reported interest in various commercial development projects in the medium term.

FINANCIAL OPERATIONS AND RESERVES: RISING INCOME TAXES AND CONSERVATIVE BUDGETING BOLSTER RESERVES

The township's financial position will remain strong over the next two to three years given conservative budgeting and rising income tax revenues. The township has recorded six straight operating surpluses, which has resulted in fund balance more than doubling from 2008 levels. This positive performance has been driven by increased income tax revenues, which have grown with the uptick in economic development within the township. It is also a product of Act 32, a Pennsylvania (Aa3 stable) state law which has led to better tax collection procedures and enabled the discovery of previously unpaid income taxes. While income taxes can sometimes be volatile in nature, we expect the township's substantial tax base to remain a reliable source of income tax revenues going forward.

In 2013, the township ran its sixth consecutive surplus, and saw fund balance rise to \$5.8 million, or a substantial 48% of General Fund revenues. The surplus can be attributed to rising income tax revenues, which have grown 44% from 2010. In 2013, income taxes were \$3.6 million, or 30% of revenues. Property taxes remained flat at \$1.5 million, or 13% of revenues, as the township has not needed to raise the millage to generate new revenues in over 20 years.

In 2014, based on preliminary management estimates, fund balance rose to approximately \$6.2 million, indicating another year of surplus. In 2015, the township is planning a road construction project that will cost approximately \$1.7 million, of which \$1.2 million will be paid from the liquid fuels fund, leaving only \$500,000 to be paid from the General Fund. Management expects reserve levels to remain at current levels going forward, and show modest growth given continued income tax growth and conservative budgeting practices.

Liquidity

The township's cash position in fiscal 2013 is substantial at \$6.8 million, or a very strong 56% of revenues, and has risen 70% from 2008. Going forward, the township has a plan to transfer some of these funds into various reserves. Management is aiming to put around \$2 million into an operating reserve, and maintain this reserve at 25% of revenues going forward. Additionally, management plans to initiate a Capital projects fund with a \$1.3 million transfer and a Fire capital fund with around \$1 million. If the plan goes through, management aims to set up the new funds with the ability to pay for future debt service.

DEBT AND PENSIONS: MINIMAL DEBT AND PENSION BURDENS; ELEVATED OPEB

The township has a minimal debt burden, which should remain low given limited future borrowing plans. At the close of fiscal 2013, the township had \$9 million in unrated GOULT debt and \$12.9 million in township-guaranteed revenue debt of the Hempfield Township Municipal Authority, \$7.9 million of which is rated. With this guaranteed debt, the township's debt burden is a manageable 0.9% of full value. The township's debt service costs were also manageable at 7.5% of expenses in fiscal 2013. However, if the approximately \$2 million in guaranteed authority debt service is added in, debt service rises to an elevated 25% of expenditures. The township has not yet been called to pay this debt service, and given the relatively strong position of the authority, and its ability to raise sewer rates, we do not expect the township will become liable for these payments going forward.

In 2013, the authority had \$3.1 million in cash, or a healthy 231 days cash on hand. Senior lien coverage on the authority's revenues bonds was also strong at 1.34x, although total coverage fell to 0.98x in 2013 when subordinate loans are included. While the authority could present a future drain on resources, its current position is strong and not pressuring the township's finances. Going forward, the authority does not have a rate increase planned, but expects increased revenues from new customers as the township continues to grow.

Debt Structure

Currently, all of the township's debt is fixed rate. In 2019, one \$5 million note converts to variable rate, with interest paid at .85% of One Month Libor plus 200 basis points with a max interest rate of 4.75% through 2030.

Debt-Related Derivatives

The township is not party to any interest rate swaps or other derivatives.

Pensions and OPEB

Hempfield's pension burden is manageable. The township maintains one single employer defined benefit pension plan. In 2013, the township contributed \$442,000 to the plan, or a modest 3.8% of expenses. When looking at Moody's adjusted net pension liability (ANPL), under our methodology for adjusting reported pension data, the township's pension burden is a modest \$6.7 million or 0.54 times 2013 operating revenues and 0.3% of full value. Moody's uses the ANPL to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported liability information, but to improve comparability with other rated entities. The township's OPEB liability, however, is elevated. In 2013, the township made \$1.1 million in OPEB contributions, which accounted for an above average 10% of expenses.

MANAGEMENT AND GOVERNANCE: HISTORY OF CONSERVATIVE BUDGETING AND COST CONTROL

The township's management has contributed to its financial strength through conservative budgeting and discipline by department heads in controlling expenditures. Management is also conservatively managing its reserve positions, and expects to keep 25% of revenues in an operating reserve going forward. Additionally, management has taken steps to minimize its fixed costs. Going forward, new employees will be ineligible for OPEB, and new non-union employees will be enrolled in defined contribution pension plans.

Pennsylvania cities (including towns, villages, and townships) have an institutional framework score of Aa, or strong. Cities enjoy the authority to adjust the property tax millage without limitation. While many cities rely on economically sensitive revenues such as income taxes, they have the authority 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.

KEY STATISTICS

- Full Value: \$2.8 billion
- Full value per capita: \$65,391
- Median family income as % of US: 111%
- 2013 General fund balance as a % of revenues: 48%
- 5-year dollar change in fund balance as a % of revenues: 28%
- Cash balance as a % of revenue: 56%
- 5-year dollar change in cash as a % of revenues: 23%
- Institutional Framework (PA cities): Aa
- 5-year average of operating revenues/operating expenditures: 1.05x
- Net direct debt/full value: 0.4%
- Net direct debt/operating revenues: 0.74x
- 3-year average Moody's ANPL/Full Value: 0.17%
- 3-year average Moody's ANPL/operating revenues: 0.38x

OBLIGOR PROFILE

Hempfield township is located in Westmoreland County about 30 miles southeast of Pittsburgh. The township has a population of 43,200.

LEGAL SECURITY

Debt service on the rated debt is secured by the township's general obligation unlimited ad valorem tax pledge.

USE OF PROCEEDS

Not applicable.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Alexandro Ferrera
Lead Analyst
Public Finance Group
Moody's Investors Service

Chandra Ghosal
Additional Contact
Public Finance Group
Moody's Investors Service

Geordie Thompson
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA

MOODY'S
INVESTORS SERVICE

© 2015 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

For Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

For Japan only: MOODY'S Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of MOODY'S Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000. MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.