

# RatingsDirect®

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## Summary:

# Easton, Pennsylvania; General Obligation

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### Credit Profile

US\$17.115 mil GO bnds ser 2013 due 11/15/2027

<i>Long Term Rating</i>	A+/Stable	New
Easton GO (AGM) <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
<b>Easton GO</b> <i>Unenhanced Rating</i>	A+(SPUR)/Stable	Upgraded
<i>Long Term Rating</i>	A+/Stable	Upgraded

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Easton, Pa.'s general obligation (GO) bonds two notches to 'A+' from 'A-' based on Standard & Poor's recently released local GO criteria, published Sept. 12, 2013, on RatingsDirect. The outlook is stable.

Standard & Poor's also assigned its 'A+' rating and stable outlook to the city's series 2013 GO bonds.

The city's full-faith-credit pledge secures the bonds.

The rating also reflects our opinion of the following strengthening factors for the city, specifically its:

- Strong budgetary flexibility with fiscal 2012 audited reserves at 9% of general fund expenditures, and
- Strong management conditions with an adequate policy but a consistent ability to maintain balanced budgets.

Our view of tempering factors includes the city's:

- Weak economy with high unemployment despite participating in the Allentown-Bethlehem-Easton metropolitan statistical area's (MSA) broad and diverse economy; and
- Weak debt and contingent liabilities, driven mostly by high net direct debt.

### Strong budget flexibility

In our opinion, Easton's budgetary flexibility remains strong with reserves above 8% of expenditures for the past three fiscal years and no plans to spend reserves down significantly. Audited fiscal 2012 reserves were \$2.4 million, or 9% of expenditures. Taxes generate 41.3% of general fund revenue. The city has additional flexibility to raise property tax rates. The current millage for general city purposes is 15.26 mills, well below the 25-mill tax cap. If needed, Easton still has plenty of room to raise taxes to the 25-mill cap.

### **Adequate budgetary performance**

In our view, Easton's overall budgetary performance has been adequate with a slight 0.3% general fund operating deficit in fiscal 2012 and a 3.1% total governmental funds deficit. Easton has increased available fund balance over the past three fiscal years. The city achieved this through a number of measures, including offering an early retirement incentive to employees, enacting a commuter tax, and becoming more conservative. Officials believe it is still too early to know how the city will end fiscal 2013; management currently expects fiscal 2013 reserves to be close to fiscal 2012 levels.

### **Adequate liquidity**

What we consider adequate liquidity supports Easton's finances with a total-governmental-available-cash-as-a-percent-of-total-governmental-fund-expenditures ratio of 8.3%, or 64.5% of debt service. We believe the city has strong access to external liquidity. Easton has issued multiple security types since 2005, including GO, lease, and pension obligation bonds.

### **Strong management**

We view Easton's management conditions as strong with "good" financial management practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them, coupled with a consistent ability to maintain balanced budgets over the past few years. Management provides monthly reports on budgeted numbers compared to actual results to the city board. Easton, however, does not use a formal debt management policy. The city adopted a reserve policy in fiscal 2011 that requires a minimum 10% of budgeted general fund revenue balance, but it is targeting no less than 15% by December 2016. The city has consistently maintained balanced operations, aided by, what we regard as, its conservative budgeting practices. Therefore, we changed our FMA on the city to "good" from "standard."

### **Weak economy**

We consider Easton's economy weak due to the projected per capita effective buying income at 65.8% of the national average and a market value of \$33,140 per capita. The somewhat diverse local economy makes up part of the Allentown-Bethlehem-Easton MSA. Northampton County unemployment averaged 8.4% in 2012, higher than the commonwealth's average and slightly higher than the nation's average. Traditionally, county unemployment has been higher than the commonwealth's rate. The property tax base is stable with assessed value increasing by less than 1% from fiscal years 2010-2013.

### **Weak debt and contingent liability profile**

In our opinion, Easton's debt and contingent liabilities profile is weak with a total-governmental-funds-debt-service-as-a-percent-of-total-governmental-funds-expenditures ratio just below 13% and a net-direct-debt-as-a-percent-of-total-governmental-funds-revenue ratio of 98.7%. We consider debt amortization above average with officials planning to retire roughly 64% of principal over 10 years. With no additional debt plans, we expect debt to decrease over the next few years.

Easton manages pension funds for city, fire, and police employees. Following changes to actuarial assumptions in fiscal 2011 to reflect what management considers more realistic assumptions, the aggregate funded ratio decreased to 60.9% on Jan. 1, 2011, from 89% in fiscal 2009. Due to this change in the funded ratio, the commonwealth considers the city's pensions moderately distressed; this allowed Easton to levy a commuter tax. According to officials, this

additional tax will provide approximately \$1.5 million of revenue the city can only use to fund pension costs. Easton continues to fund its annual required contribution (ARC) in full; the ARC was \$1.4 million, or 3% of governmental expenditures, in fiscal 2011. The ARC for the other postemployment benefits liability was \$1.2 million, or 3% of governmental expenditures, in fiscal 2012. Easton continues to fund this obligation through pay-as-you-go financing; it paid \$333,034 in fiscal 2012, or less than 1% of governmental expenditures.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Pennsylvania home rule cities strong.

## **Outlook**

The stable outlook reflects Standard & Poor's opinion of Easton's consistent financial performance, supported by strong management. We do not expect to change the rating over the outlook's two-year period due to our belief that Easton will likely maintain, what we consider, strong reserves and that it will likely continue to participate in the broad and diverse Allentown-Bethlehem-Easton MSA.

## **Related Criteria And Research**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Pennsylvania Local Governments

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