



Ratings

Policies

Regulatory
Affairs

Ratings
Definitions

Rating
Methodologies

Rating Action

Moody's upgrades Borough of Kutztown, PA's GOULT rating to A2 and assigns A2 issuer rating

New York, January 11, 2023 -- Moody's Investors Service has assigned a A2 issuer rating to the Borough of Kutztown, PA. The issuer rating reflects the borough's credit quality and ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features. Concurrently, Moody's upgraded the borough's general obligation unlimited tax (GOULT) ratings to A2 from A3. This action concludes a review that was initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The borough had about \$15.1 million in outstanding debt as of December 31, 2021.

RATINGS RATIONALE

The A2 issuer rating reflects the borough's healthy finances, manageable leverage and economic indicators that trail sector medians. The rating also incorporates the borough's dependence on electric utility revenues to fund governmental operations, which has concentration in customers. The continued health of the borough's primarily residential tax base is dependent on the presence of Kutztown University, whose student population of approximately 8,000 exceeds the resident population.

The borough available fund balance and liquidity ratios are excellent. Approximately 80% of borough operations stem from its electric transmission and distribution system. Management has demonstrated a willingness to raise utility rates to invest in capital improvements and to subsidize governmental operations in order to minimize increases in the property tax levy. The utility has rate payer concentration with the top ten customer accounts comprising about 30% of revenues with the largest, East Penn Manufacturing Company, accounting for approximately 10% of electric fund revenues. The borough's available fund balance is expected to remain above 35% and liquidity to remain above 40% for at least the next couple of fiscal years. Although audited financial statements are not yet available, officials report that fiscal 2022 ended with the general fund balance remaining level supported a routine transfer from the electric fund and an uptick from local service tax. The borough's 2023 budget balances revenues and

expenditures with no major draw on reserves. Leverage is expected to remain below 200% of operating revenues as there are no plans to issue debt in the next few years.

Kutztown University has seen modest enrollment erosion in recent years. The outlook for the higher education sector is negative with small, regional universities facing the most significant challenges. Resident wealth and income levels are somewhat depressed by the student population with adjusted median household income below at 78%. The growth in gross domestic product of the metropolitan area was solid though grew slower than that of the nation over the last five years.

The A2 ratings on the borough's GOULT bonds is at the same level as the issuer rating because the borough has pledged its full faith and credit and taxing authority for repayment of bonds.

RATING OUTLOOK

Outlooks are not typically assigned to local government credits with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Significant growth in full value per capita and resident income
- Diversification of the revenue and economic base

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Material increase in leverage
- Significant decline in reserves or liquidity
- Loss of or significant weakening top electric customer or taxpayer

LEGAL SECURITY

The bonds are secured by the borough's unlimited tax general obligation pledge.

PROFILE

Kutztown is a borough in Berks County (Aaa stable), Pennsylvania (Aa3 stable), 18 miles southwest of Allentown (A3 stable) and 17 miles northeast of Reading (Baa2 stable) with a population of just over 5,000.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections