NEWS

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Moody's Reaffirms Montco's Strong Financial Position

Norristown, PA (January 8, 2016) – Moody's Investors Service has reaffirmed Montgomery County's Aa1 bond rating with a stable outlook, and noted that the county benefits "from strong management that adheres to formal fiscal policies, multi-year budgeting, and long term capital planning."

The new Moody's rating was generated by the fact that Montgomery County is borrowing $55 million to finance its on-going capital program that includes major upgrades to infrastructure such as roads, bridges, parks, trails, and county buildings.

At the same time, Moody's reaffirmed the Aa1 rating on the county's outstanding debt and predicted that the "county's debt profile will remain manageable."

The credit opinion noted that the rating is based upon the county's sizeable tax base, and its "satisfactory and improving financial position, low debt burden, and below-average pension obligation." In fact the credit opinion noted that in 2016 the county's contribution to the pension fund "will more than double to $8 million."

Under rating outlook, the report said, "the stable outlook reflects the county's improved financial position, which we expect will be maintained over the medium term."

"The latest Moody's report is clear evidence that our fiscal policies and overall management of our county finances is working," said Josh Shapiro, chair of the Montgomery County Board of Commissioners. "We continue to strive to bring our fiscal situation back from the dire straits it faced when we took office in 2012 inheriting a budget that had a $10 million hole in it, and a structural deficit of $47 million."

Moody’s indicated in its report that an upgrade to the rating would be possible “with increased reserve levels more consistent with higher rating categories and a longer sustained demonstrated trend of balanced operations.”

“The county reserve level had fallen dangerously low before we took office because of deficit spending,” Shapiro said. “We have doubled the reserve fund in the past four years and it is now above the generally accepted level of 10 percent of our overall revenues, so we are confident that our reserve fund in future years will be looked upon favorably by Moody’s. As far as ‘a longer sustained trend’ goes, we can’t make 2011 go away, but as we move forward with balanced budgets, adequate reserve funds, and full pension payments, we are confident that strong reports on Montgomery County’s fiscal health will continue to be issued by Moody’s.”

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
8 January 2016

New Issue

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Montgomery County, PA

New Issue - Moody's assigns Aa1 to Montgomery County, PA's $55M GO Bonds, Ser. 2016A; outlook stable

Summary Rating Rationale

Moody's Investors Service assigns a Aa1 rating to Montgomery County, PA's $55 million General Obligation Bonds, Series A of 2016. Concurrently, Moody's affirms the Aa1 rating on the county's outstanding GO debt. Post-sale, the county will have $440 million of GO and parity rated debt outstanding. The outlook remains stable. The Aa1 rating incorporates the county's sizeable tax base with above-average wealth indices located in the Philadelphia metro area, satisfactory and improving financial position, low debt burden, and below-average pension obligation.

Credit Strengths

» Sizeable and diverse tax base with above-average wealth levels

» Manageable debt and pension obligations

Credit Challenges

» Current reserve and liquidity levels is satisfactory relative to similarly rated peers

Rating Outlook

The stable outlook reflects the county's improved financial position, which we expect will be maintained over the medium term.

Factors that Could Lead to an Upgrade

» Increased reserve levels more consistent with higher rating categories

» Longer and sustained demonstrated trend of balanced operations

Factors that Could Lead to a Downgrade

» Failure to maintain positive operations

» Significantly increased debt and/or pension burdens

» Material declines to the tax base

Key Indicators

Exhibit 1

Montgomery (County of) PA	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 104,031,228	$ 100,730,205	$ 94,275,923	$ 92,332,436	$ 102,445,091
Full Value Per Capita	$ 130,060	$ 125,254	$ 116,612	$ 113,454	$ 125,414
Median Family Income (% of US Median)	150.2%	150.2%	153.5%	153.5%	153.5%
Finances					
Operating Revenue ($000)	$ 394,609	$ 385,418	$ 404,149	$ 413,110	$ 418,201
Fund Balance as a % of Revenues	13.0%	5.9%	3.9%	5.5%	7.9%
Cash Balance as a % of Revenues	10.5%	7.5%	5.8%	6.7%	8.1%
Debt/Pensions					
Net Direct Debt ($000)	$ 465,341	$ 431,444	$ 408,885	$ 438,605	$ 509,130
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	1.1x	1.2x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	0.6x	0.7x	0.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.3%	0.3%	0.3%

Source:Moody's Investors Services

Recent Developments

Fiscal 2015 was marked by the Commonwealth of Pennsylvania's (Aa3 negative) prolonged budget impasse that stalled approximately $40 million in human service payments due to the county. Notably, Montgomery County was able to continue to paying these obligations all or in part through December 31st by using reserves instead of issuing short-term notes.

Detailed Rating Considerations

ECONOMY AND TAX BASE: SIZEABLE TAX BASE IN THE PHILADELPHIA METRO AREA

The county's sizeable tax base of $106 billion is likely to continue to experience modest growth over the near term due to new development and stable institutional presence. Located northwest of Philadelphia (A2 stable), Montgomery County's assessed valuation has witnessed compound annual growth of 0.4% over the last five years. The county's tax base is considered diverse, with only 39% for residential use and the remaining land designated for industrial or commercial purposes, including approximately 19% as woodlands and open space. Additionally, about 16% of the county is agricultural or vacant and available for future development. The growth is likely to continue as pending developments including over 4,300 residential units, 2.5 million square feet of commercial space, King of Prussia mall expansions, and the redevelopment of the Willow Grove Naval Station are underway. A new 115,000 square foot children's hospital has also been completed in the Village of Valley Forge. The county also has strong institutional presence, with 16 colleges and universities and the new Einstein Medical Center, which opened in 2012.

The county's principal taxpayers are also diverse, comprising just 4.3% of the 2015 assessed valuation. Wealth levels continue to exceed the state and national medians, with median family income of 149.4% and 153.9%, respectively. The unemployment rate of 3.6% as of October remains well below the state and nation.

FINANCIAL OPERATIONS AND RESERVES: IMPROVING RESERVE LEVELS IN COMPLIANCE WITH FORMAL POLICIES

The county's financial position has continued to improve given conservative budgeting practices. The county ended fiscal 2014 with a surplus of $16 million, increasing General Fund reserves to $40 million, or 10.5% of revenues (prior to one-time asset sale revenues), a notable improvement from the prior year's reserves of $24 million (5.8% of revenues). Fiscal 2014 reserve levels were also in compliance with the county's formal fiscal policy to maintain reserves at no less than 10% of revenues. The surplus was generated by conservative budgeting and the sale of Parkhouse, the county nursing home and the Human Services Building.

Management estimates ending fiscal 2015 with a $514,000 deficit due to one-time expenditures including preparations for the papal visit. Fiscal 2015 may end better than projected as state revenues begin to flow to the county.

The fiscal 2016 budget increases 4.8% over the 2015 due to increased debt service and health services at the county prison. The budget includes a 9.8% tax increase (the first increase since 2012) and does not include the use of one-time revenues. A small surplus is expected to be generated from continued operational savings from the sale of Parkhouse, increased tax revenues, and general conservative budgeting.

LIQUIDITY

The county's liquidity continues to improve without the need for cash flow borrowing. The county ended fiscal 2014 with $34 million in cash, or 8.1% of revenues.

DEBT AND PENSIONS: MANAGEABLE DEBT WITH SWAP EXPOSURE; LIMITED PLANS FOR FUTURE BORROWING

The county's debt profile will remain manageable, given its modest direct debt burden (0.5% of full value) and average principal amortization (72.6% retired within 10 years). Based on the county's capital plan, there is a need to issue additional debt for outstanding capital needs throughout the county in the near term.

DEBT STRUCTURE

As of 2015, the Series A of 2004 bonds are the county's only variable rate interest bonds (12% of total debt). The remaining 88% of the county's debt is fixed rate and amortizes over the long term.

DEBT-RELATED DERIVATIVES

The county has two swaps and one swaption agreement outstanding. In 2004, the county entered into a basis swap agreement with Wells Fargo, related to the $60 million Series of 2004 A General Obligation Note. As of January 4, 2016, the district's 2004 swap had a fair market value of negative $6.5 million. In 2006, the county entered into a basis swap agreement and swaption with PNC Bank, related to the $38 million Series of 2006 A General Obligation Note with fair market values of negative $286,685 and $4.9 million, respectively.

For all of the swaps, the regularly scheduled payments are parity to the general obligation debt of the county, early termination is optional for the county only, and termination is subordinate to general obligation debt. Termination by the counterparty depends upon specified termination events, including rating deterioration below certain target levels. Moody's views the potential termination payment scenarios as manageable, since the county has the option of issuing debt to finance such termination payments.

PENSIONS AND OPEB

The county provides pension benefits to employees through one single-employer defined-benefit plan. Montgomery County contributed $3.5 million or 33% of the actuarially determined contribution in 2014 and the same in 2015. For fiscal 2016, the county's contribution will more than double to $8 million. The adjusted net pension liability for the plan, under Moody's methodology for adjusting reported pension data, has averaged roughly 0.7 times revenues over the past three years. Moody's uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

The county’s total fixed costs including debt service and pension contributions totaled $64.6 million, or 16% of revenues. The county does not provide post-employment health benefits.

MANAGEMENT AND GOVERNANCE

Pennsylvania counties have an institutional framework score of “Aa,” or strong. Revenues are moderately predictable due to a reliance on stable property tax revenues. Revenue raising flexibility is high as counties rarely approach their property tax millage limit. Expenditures mostly consist of social services, which are highly predictable and largely offset with state reimbursements and grants. Counties also have a moderate ability to adjust expenditures as the majority of essential services are provided by other local governments.

Montgomery County benefits from strong management that adheres to formal fiscal policies, multi-year budgeting and long term capital planning.

Legal Security

The Series A of 2016 bonds are secured by the county's general obligation unlimited tax pledge.

Use of Proceeds

Bond proceeds from this issue will be used to finance a series of capital projects throughout the county, including improvements to roads, bridges, county offices, and new emergency radio equipment.

Obligor Profile

Montgomery County is the third-largest county in Pennsylvania, located in the Philadelphia metro area.

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.

Ratings

Exhibit 2

MONTGOMERY (COUNTY OF) PA

Issue	Rating
General Obligation Bonds, Series A of 2016	Aa1
Rating Type	Underlying LT
Sale Amount	$55,000,000
Expected Sale Date	01/20/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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