

## Easton, Pennsylvania

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### Credit Profile

#### GO bnds

Long Term Rating	A-/Stable	Upgraded
Easton GO		
Unenhanced Rating	A-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

### Rationale

Standard & Poor's Ratings Services raised its long-term and underlying ratings (SPUR) on Easton, Pa.'s general obligation (GO) bonds to 'A-' from 'BBB+', based on the city's strong financial performance during the past three fiscal years and enhanced revenue-raising flexibility following the approval of a new home rule charter. The outlook is stable.

The rating reflects our view of the city's:

- Adequate income levels with access to employment opportunities within the Allentown-Bethlehem-Easton metropolitan area; and
- Three consecutive years of operating surpluses, with good reserve levels, and an expected surplus again for fiscal 2010.

Offsetting rating factors include our view of the city's:

- Low wealth indicators, with market value per capita at roughly \$30,000; and
- Moderate-to-high debt burden.

Easton occupies about 4.3 square miles and is the county seat for Northampton County.

Located approximately 11 miles northeast of Bethlehem and about 18 miles northeast of

Allentown, the city is part of the Allentown-Bethlehem-Easton metropolitan statistical area.

The city's population has largely remained unchanged since the 2000 U.S. Census, and is

currently estimated at about 26,239 residents. We believe the city's income levels are adequate, although below average, with median household effective buying income equal to 77% of the

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national level. Unemployment remained higher than the commonwealth and nation's levels at 10.9% in October 2010 (not seasonally adjusted). Overall, new development activity in the city has been modest, and large urban construction projects did not continue as planned, which hampered the city's assessed value (AV) expansion. AV growth averaged, in our view, a modest 0.7% annually since 2006 to reach \$351.7 million for fiscal 2009; market value totals \$782.1 million, equal to what we consider a low \$29,806 per capita in fiscal 2009. The taxpayer base is very diverse, with the leading 10 taxpayers account for 3.71% of total AV.

Easton's financial position has historically been, in our opinion, weak, but the city has improved its finances due to an increase in the property tax millage rate to 24.95 mills in fiscal 2007 and additional revenue flexibility under its new home rule charter. A new tax collection program was also implemented that resulted in an increase in total revenues in fiscal 2009. In audited fiscal 2009, the ending unreserved general fund balance increased to \$1.9 million and represented, in our view, a good 7.9% of the operating expenditures. Charges for services and property taxes are the township's largest revenue sources, accounting for 38% and 39% of the 2009 general fund revenues, respectively. Management projects a small general fund surplus for fiscal 2010, and we understand a portion will be used to balance fiscal 2011's budget.

Easton's financial management practices are considered "standard" under Standard & Poor's financial management assessment (FMA) methodology. An FMA of "standard" indicates that the city maintains adequate policies in some, but not all, key areas. We revised our assessment to "standard" from "good", given additional clarification regarding the city's financial forecasting, capital planning, and investment management practices.

We believe the city's overall debt burden is moderate at \$3,104 per capita, but a high 10.4% of market value given the city's modest tax base. Capital charges remain, in our opinion, moderate, representing 12.6% in fiscal 2009. Amortization of the outstanding principal debt is above average, with about 61% due to be retired within 10 years and roughly 93% in 20 years. The city is planning to issue \$8-\$10 million of self-supporting debt for its parking authority.

### ***Outlook***

The stable outlook reflects our expectation that the city will maintain at least good reserve levels going forward due to its additional revenue-raising flexibility and track record of trimming expenditures as needed under the city's new management team. Should financial performance weaken, the rating could be pressured downward. However, if the city is able to maintain stable finances and good reserve levels, there could be some upward rating movement.

### ***Related Criteria And Research***

USPF Criteria: GO Debt, Oct. 12, 2006

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