

RatingsDirect®

Summary:

Montclair Township, New Jersey; General Obligation

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Summary:

Montclair Township, New Jersey; General Obligation

Credit Profile

US\$15.235 mil GO rfdg bnds ser 2016 B due 09/01/2030

Long Term Rating AAA/Stable New

Underlying Rating for Credit Program AAA/Stable New

US\$4.38 mil GO rfdg bnds ser 2016 A due 09/01/2030

Long Term Rating AAA/Stable New

Montclair Twp GO

Long Term Rating AAA/Stable Upgraded

Rationale

S&P Global Ratings raised its long-term and underlying ratings on Montclair Township, N.J.'s existing general obligation (GO) debt to 'AAA' from 'AA+' as the township continues to consistently achieve stable financial performance supporting its very strong liquidity and strong budgetary performance and flexibility. At the same time, we assigned our 'AAA' long-term rating and underlying rating for credit program to the township's series 2016A GO bonds, consisting of general improvement and water utility refunding bonds, and its series 2016B school refunding bonds. The outlook on all these ratings is stable.

The township's full-faith-credit and unlimited ad valorem levy pledge secures the bonds. The New Jersey School Bond Reserve Act Program also provides additional security on the series 2016B bonds. Officials plan to use bond proceeds from the 2016A to refund its outstanding series 2008 GO improvement and water utility bonds. Proceeds from the 2016B bonds will refund the series 2008 and 2010 GO school refunding bonds.

Montclair Township's GO bonds are eligible to be rated above the sovereign because we believe the township can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), the township has a predominately locally derived revenue source, with 74% of governmental activity revenue derived from local sources with independent taxing authority and independent treasury management from the federal government.

The 'AAA' GO rating reflects our assessment of the following credit factors, specifically the township's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 at 11.0% of operating expenditures;

- Very strong liquidity, with total government available cash at 28.2% of general fund expenditures and 2.7x governmental debt service, as well as access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 10.5% of expenditures, net direct debt at 88.5% of general fund revenue, and low overall net debt at less than 3% of market value and rapid amortization, with 78.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Montclair's economy very strong. The township, with an estimated population of 37,723, encompasses 6.2 square miles in Essex County and is just 20 miles west of New York City. It is in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 187% of the national level and per capita market value of \$180,841. Overall, market value grew by 1.3% over the past year to \$6.8 billion in 2015. The county unemployment rate was 6.7% in 2015.

Although primarily residential, the township maintains a healthy retail and commercial component as well. Given its desirable location and good transportation access via major roadways and rail, many residents find ample employment opportunities in the New York City and Northern New Jersey MSA employment bases. As such, township unemployment has remained below the state and national averages while county unemployment levels remain on par with the aforementioned levels. In 2015, the township's unemployment rate averaged 4.3%. Although mature, we expect the tax base to increase modestly over the near term as economic re-development occurs. Currently, management has reported that there are redevelopments projects, including the construction of a hotel and mixed-use development, expected to be completed with 2016 and continue for at least five years. There is no significant tax appeals pending that could be a detriment to the township's financial position.

Strong management

We view the township's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include: conservative budgeting practices that look back to the prior year, monthly monitoring of budget-to-actuals with monthly reports provided to the board. The township also maintains a five-year financial plan that makes various assumptions. In addition, it maintains a capital improvement plan but financing sources are not included for all projects. The township does not maintain a formal investment policy of its own, but rather follows the state's guidelines. Updated reports are provided quarterly to the board. Although it has no formal debt issuance or reserve policies, the township has, by resolution, adopted a plan to reduce outstanding debt and maintain reserves at a level sufficient to prevent tax rate fluctuations.

Strong budgetary performance

Montclair's budgetary performance is strong, in our opinion. The township had slight surplus operating results in the general fund at 0.9% of expenditures in fiscal 2015. General fund operating results of the township have been stable over the last three years, with results of 0.9% in 2014 and 2.4% in 2013.

Management has continued its conservative budgeting practices that have contributed to its consecutive operating surpluses over the past three audited years. It attributes these recent surpluses to miscellaneous revenues coming in

over budget, deferred revenues and reserves for uncollected taxes, and conservative budgeting controls.

Property taxes are the township's leading current fund revenue source, accounting for 79% of total current fund revenues in fiscal 2016. The township has remained under the 2% levy cap since implemented; it had a cap bank of \$1 million in 2016. The fiscal 2016 budget totals \$82.9 million and has increased by 3.1% over the prior year. The budget includes \$3.2 million, up by 7% from 2015, of its fund balance to balance the budget and is its typical practice. Although appropriating a slightly greater amount of reserves than in the prior year, management has indicated that revenue and expenditures are currently tracking on target with budget, and a surplus is expected. As reported previously, there was a pending litigation with a police officer but to date, the suit has been settled in favor of the township with no effect on its financial position.

We believe that the township is likely to maintain its strong budgetary performance given the current lack of budgetary pressures and its track record of financial sustainability.

Strong budgetary flexibility

Montclair's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 at 11.0% of operating expenditures, or \$8.5 million.

The township's current fund balance has improved from \$7.1 million or 9.6% of expenditures in 2013 and is expected to continue, though the budget includes the use of fund balance. In previous years, the township had deferred school taxes that had bolstered its fund balance, but it has not done so over the past two years. Management has indicated that it has no plans to draw down on reserves in the near term. We believe that with its continued ability to achieve stable financial results, its budgetary flexibility is likely to remain strong or improve.

Very strong liquidity

In our opinion, Montclair's liquidity is very strong, with total government available cash at 28.2% of general fund expenditures and 2.7x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

We believe the township's strong access to external liquidity is supported by its frequent debt issuances, including GO bonds and bond anticipation notes (BANs). Though the state allows for what we view as permissive investments, we believe the township does not currently have aggressive ones, with the majority in demand deposits and the New Jersey Cash Management Plan. It has consistently had very strong liquidity and we expect that it will likely maintain it.

Strong debt and contingent liability profile

In our view, Montclair's debt and contingent liability profile is strong. Debt service is 10.5% of general fund expenditures, and net direct debt is 88.5% of general fund revenue. Overall net debt is low at 2.3% of market value, and approximately 78.4% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

In our view, Montclair's debt and contingent liability profile is strong. Total governmental fund debt service is 13.8% of total governmental fund expenditures, and net direct debt is 106.5% of total governmental fund revenue. Overall net debt is low at 2.4% of market value and approximately 84.6% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

The township plans on continuing to reduce its overall debt, so any future debt issuance will be offset by reduction in principal payment. As such, we do not expect its debt and contingent liability profile to weaken.

Montclair's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 8.5% of general fund expenditures in 2015. The township made its full annual required pension contribution in 2015.

The township participates in the state's Public Employees' Retirement System (PERS) and Police and Firemen's Retirement System (PFRS), which are cost-sharing, multiemployer defined-benefit pension plans that the New Jersey Division of Pensions and Benefits administers. Although the borough pays 100% of its annual billings received from the state, those payments do not fully fund the state's annual required contribution, which remains a credit weakness.

Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, the township's share of the net pension liability in the state system was \$33.7 million and \$95.6 million, respectively in 2015. The plans were funded at 52.8% (PFRS) and 38.2% (PERS) in 2015, based on its net position as a percentage of the total pension liability.

Montclair Township pays its OPEBs on a pay-as-you-go basis and participates in the State Health Benefits Program (SHBP). It is therefore not required to provide separate reporting on its OPEBs, so we are unable to determine its OPEB unfunded actuarial accrued liability. However, since Jan. 1, 2015, all township employees are now enrolled in Horizon Blue Cross Blue Shield.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our opinion of a township that is conveniently located near the deep and diverse New York City MSA employment base. This location allows residents to benefit from very strong income and extremely strong wealth levels and also translates into lower unemployment rates. It also reflects the township's overall sound financials that have translated into the maintenance of very strong liquidity and strong budgetary flexibility and performance as supported by the strength of its financial management practices. Further stability is supported by the township's strong debt and contingent liability profile that is not expected to weaken as it continues to manage its debt and pension and OPEB costs. As such, we do not expect that the rating is likely to change within the two-year outlook period. However, we could lower the rating if the township experiences budgetary pressures resulting in weakened liquidity, budgetary flexibility, and budgetary performance.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: New Jersey Local Governments

Ratings Detail (As Of July 22, 2016)		
Montclair Twp GO		
<i>Long Term Rating</i>	AAA/Stable	Upgraded
Montclair Twp GO		
<i>Underlying Rating for Credit Program</i>	AAA/Stable	Upgraded
<i>Long Term Rating</i>	AAA/Stable	Upgraded

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