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Summary:

River Edge Borough, New Jersey; General Obligation

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Credit Profile

US\$4.9 mil GO imp bnds ser 2017 dtd 11/01/2017 due 11/01/2029

Long Term Rating AA+/Stable New

River Edge Boro gen imp bnds dtd 11/15/2009 due 11/15/2010-2019

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to River Edge Borough, N.J.'s general improvement general obligation (GO) bonds, and affirmed its 'AA+' rating on the borough's GO debt outstanding. The outlook is stable.

The borough's full-faith-and-credit-and-resources pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. Officials intend to use bond proceeds to refund \$2.5 million in previously issued bond anticipation notes that mature on Nov. 10, 2017, as well as provide \$2.4 million in new money to fund various capital projects.

The borough's full-faith-and-credit pledge secures the debt.

The rating reflects our opinion of the borough'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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 25% of operating expenditures;
- Very strong liquidity, with total government available cash at 38.3% of total governmental fund expenditures and 3.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 9.8% of expenditures and net direct debt that is 69.3% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 87.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider River Edge Borough's economy very strong. The borough, with an estimated population of 11,736, is located in Bergen County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The borough has a projected per capita effective buying income of 152% of the national level and per capita market value

of \$144,877. Overall, the borough's market value grew by 1.6% in 2015 to \$1.7 billion in 2016. The county unemployment rate was 4.2% in 2016.

River Edge Borough is a mature residential community encompassing about 1.9 square miles in Bergen County, approximately six miles from New York City. The local economy benefits from being in the New York MSA. Rail service provides connections to New York City, and residents benefit from road access to the New Jersey Turnpike and Garden State Parkway.

Strong management

We view the borough'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.

Financial management strengths include regular budget monitoring with formal monthly reports to the council. Additional practices include the development of a formal six-year capital improvement plan, with identified project costs and funding sources, which management reviews annually. The borough has adopted formal fund balance and debt policies. The fund balance policy sets a minimum fund balance of 5% of the total tax levy, and a target balance of at least 8% of the annual tax levy. The borough maintains a cash management plan that is reviewed annually, and it reports investment performance and holdings to council monthly. However, the borough does not currently maintain formalized long-term financial forecasts.

Strong budgetary performance

River Edge Borough's budgetary performance is strong in our opinion. The borough had operating surpluses of 2.4% of expenditures in the general fund and of 2.4% across all governmental funds in fiscal 2016.

The borough has historically maintained strong operating performance with operating surpluses in each of the past five fiscal years due to positive revenue trends and conservative budgeting.

We understand that River Edge Borough expects to end fiscal 2017 with an estimated increase to reserves of as much as \$1.0 million based on continued conservative budgeting and, more specifically, to building fees coming in above budget. As such, we believe budgetary performance will remain strong.

Property taxes generate 80% of revenue, while state aid accounts for 6.8%. River Edge Borough's collections have been sound, in our view; collections averaged 99% of the current levy in the past four fiscal years.

Very strong budgetary flexibility

River Edge Borough's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 25% of operating expenditures, or \$3.9 million.

Management currently has no plans to spend down the fund balance. For fiscal 2017, management expects River Edge Borough to produce surplus operating results and an increase to available reserves of as much as \$1.0 million. As such, we expect budgetary flexibility to remain very strong and in compliance with the borough's fund balance policy to maintain reserves at a minimum of 5% of tax levy, which translates into a very strong 16% of current fund 2016 expenditures.

Very strong liquidity

In our opinion, River Edge Borough's liquidity is very strong, with total government available cash at 38.3% of total governmental fund expenditures and 3.9x governmental debt service in 2016. In our view, the borough has strong access to external liquidity if necessary.

We do not currently expect any deterioration in the borough's cash levels; therefore, we expect liquidity to remain very strong. River Edge Borough is a frequent issuer of GO debt. The borough confirmed it does not currently have any contingent liquidity risk from financial instruments, with payment provisions that change on the occurrence of certain events.

Strong debt and contingent liability profile

In our view, River Edge Borough's debt and contingent liability profile is strong. Total governmental fund debt service is 9.8% of total governmental fund expenditures, and net direct debt is 69.3% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and approximately 87.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

We understand the borough's capital needs are limited to maintenance projects and vehicle replacements, which could result in the borough issuing about \$2 million in additional debt over the next two years. We do not expect this to change the borough's debt profile materially.

River Edge Borough's pension contributions were 5.7% of total governmental fund expenditures in 2016. The borough made its full annual required pension contribution in 2016.

Although these costs as a percent of expenditures are not yet at levels we consider elevated, we believe the borough has limited ability to control future growth of these liabilities. Should these costs significantly increase, it could weaken our view of the borough's debt and contingent liability profile.

River Edge Borough participates in the cost-sharing, multiple-employer Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS) pension plans, as defined by the Governmental Accounting Standards Board (GASB), as well as a defined contribution retirement program. Both PFRS and PERS are, in our view, significantly underfunded. The plan fiduciary net position as a percent of the total pension liability, as defined in GASB Statement No. 67, was 48.55% for PFRS and 31.20% for PERS as of June 30, 2016. This is a result of numerous years of underfunding by the state, aggressive assumptions, and weak market performance. Under current funding assumptions, PERS is projected to be exhausted by 2034, while PFRS is projected to be exhausted by 2050. This projection is based on a discount rate of 7.65%, the Buck modified mortality projection table, and the projected unit credit actuarial methodology, all of which we consider somewhat aggressive. New Jersey recently lowered its return assumption to 7.65% from 7.90%, a change that while positive in that it slightly lowers the system's reliance on investment returns, will also result in higher contributions for local government units. In fiscal 2016, the borough made its portion of the actuarially determined contribution of \$549,119 for PFRS and \$318,773 for PERS.

Although assets and liabilities are separated between local and state employers when calculating the local government's contribution, these are cost-sharing systems as defined by GASB and, therefore, there is no legal separation. Assets are in a common pool and all employer contributions go to this pool. Benefits are paid to plan

retirees regardless of whether the corresponding employer fully paid its contribution or not. Given that the state has not fully funded its contribution requirement for either plan for over a decade, we believe local government annual pension contributions might increase if assets allocated to New Jersey for funding calculations become depleted. Furthermore, to the extent that the overall system becomes increasingly underfunded, experiences negative cash flows, or needs to revise its return assumptions downward, local governments could face increasing contributions. We recognize that the state recently passed legislation transferring lottery assets into certain state-administered retirement systems. We will continue to monitor these developments and any potential credit impact.

The borough's proportionate share of the PERS net pension liability totals \$11.3 million, assuming a 3.98% discount rate. The borough's proportionate share of the PFRS net pension liability totals \$13.7 million assuming a 5.55% discount rate.

The borough does have any other postemployment benefit liability.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our opinion that we will likely not change the rating over the next two years. We expect the borough will maintain its very strong fund balance due to conservative budgeting practices. In addition, we believe the borough's diverse and stable tax base also provides additional stability to the rating.

Upside scenario

We could raise the rating if the borough were to formalize long-term financial projections that are monitored on an annual basis, assuming all other credit factors remain at least at current levels, or if the borough were to experience continued growth in economic indicators, including an increase in income levels to the level of higher-rated peers.

Downside scenario

Although we view this as unlikely at this time, we could lower the rating if the borough were to experience significant deterioration in operating performance leading to a substantial drawdown of reserves.

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
- 2017 Update Of Institutional Framework For U.S. Local Governments

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