

RatingsDirect®

Summary:

Robbinsville Township (Mercer County), New Jersey; General Obligation

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Summary:

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Credit Profile

US\$9.475 mil GO bonds ser 2018 due 06/01/2036

Long Term Rating AA+/Stable New

Robbinsville Twp (Mercer Cnty) GO

Long Term Rating AA+/Stable Affirmed

Robbinsville Twp (Mercer Cnty) GO (ASSURED GTY)

Unenhanced Rating AA+(SPUR)/Stable Affirmed

Robbinsville Twp GO

Unenhanced Rating AA+(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings has assigned its 'AA+' rating to Robbinsville Township, N.J.'s series 2018 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the township's existing GO debt. The outlook is stable.

The township's full faith and credit pledge and its agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the 2018 bonds.

The bond proceeds will refund existing bond anticipation notes (BANs) issued toward the acquisition and construction of new municipal building properties along with various capital projects.

The rating reflects our opinion of the township's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with balanced operating results 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 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.1% of total governmental fund expenditures and 1.6x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 21.2% of expenditures and net direct debt that is 242.1% of total governmental fund revenue, as well as a large pension and other postemployment

benefits (OPEB) obligation; and

- Strong institutional framework score.

Very strong economy

We consider Robbinsville's economy very strong. The township, with an estimated population of 14,429, is located in Mercer County in the Trenton, N.J. MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 185% of the national level and per capita market value of \$178,553. Overall, the township's market value grew by 2.7% over the past year to \$2.6 billion in 2017. The county unemployment rate was 4.3% in 2016.

The township is approximately one hour from both New York and Philadelphia, with major highways such as the New Jersey Turnpike and Interstate 195 crossing through. Its convenient location has made it attractive for many large companies to house their warehouse operations. Robbinsville boasts approximately 12 million square feet of warehouse space, with a 98% occupancy rate. Amazon recently opened its mega-warehouse and other warehouse tenants include many big-name companies such as LongChamp USA, Mercedes Benz, and Global International.

In addition to the township's successful warehouse sector, Robbinsville is also experiencing new commercial and residential growth. Various new commercial and retail projects are under development or already under construction, including a YMCA and a new medical office. Officials also believe the addition of new high-end homes--Robbinsville Estates and Raajipo, a 55-plus living community--will continue to add to the township's growing tax base.

Adequate management

We view the township's management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some but not all key areas.

The township maintains a practical approach with its budgeting and management practices. Management typically keeps budget projections conservative and considers historical trends when making revenue and expenditure assumptions. The mayor, administrator, and finance staff review budget-to-actual reports monthly, and amendments and updates are allowable before either the budget's introduction or adoption, with council approval. Management also tracks the township's capital improvement needs, along with the funding sources of each project, through a six-year annually updated capital improvement plan. However, Robbinsville doesn't maintain a formal multiyear projection for its long-term financial arrangements. As for financial policies, the township uses state guidelines when it comes to debt or investment management practices. However, management monitors investments monthly. There is also no formal policy regarding the township's reserves.

Strong budgetary performance

Robbinsville's budgetary performance is strong, in our opinion. The township had balanced operating results of negative 0.4% of expenditures in the general fund and of negative 0.4% across all governmental funds in fiscal 2016.

The township's financial performance has been stable over the past several years. Robbinsville benefits from a stable and predictable revenue profile with property taxes as its largest revenue source, and collections remain very strong, in our view. The 2016 decline reflects the use of budgetary reserves to fund capital appropriations in the budget.

Unaudited results for 2017 suggest the township will close with an increase in current fund balance of close to \$400,000, or about 1.8% of expenditures. We anticipate budgetary performance will remain strong and in line with past performance due to the stable budgetary environment. We note Robbinsville generally appropriates any surplus toward its budget each year, but has done well budgeting conservatively and maintaining stability.

The 2018 budget totals 24.7 million, an increase of 4.4% from the previous year. The township is assuming higher miscellaneous revenues and property taxes.

We believe pension and OPEB liabilities will remain a budgetary stress given the low funded ratio of its state-administered plans. Robbinsville has done well managing future costs by working with collective bargaining units and eliminating mandatory health care for new hires. For now, the township is funding its contractual amount for pensions, and is paying OPEB on a pay-as-you-go basis. Given the challenges at the state level regarding pension funding, we expect future increases are inevitable and that may strain future operations for the township, particularly if economic or business conditions worsen and actuarial assumptions for its pensions are not met, revised, or found to be inadequate at the state level.

Very strong budgetary flexibility

Robbinsville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 20% of operating expenditures, or \$4.4 million.

We anticipate the township's reserves will remain very strong and in line with years past, largely because the current budgetary environment is stable and there is no expectation that it uses reserves to fund capital projects. The township has demonstrated a track record of maintaining reserves in excess of 15% over several years and management is projecting a surplus in fiscal 2017.

Very strong liquidity

In our opinion, Robbinsville's liquidity is very strong, with total government available cash at 33.1% of total governmental fund expenditures and 1.6x governmental debt service in 2016. In our view, the township has strong access to external liquidity if necessary.

The township doesn't invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. Robbinsville maintains what we view as strong access to external liquidity, with long-term GO bond issuances within the past 20 years. Looking ahead, we anticipate liquidity will remain very strong given the steady budgetary environment and limited capital needs.

Very weak debt and contingent liability profile

In our view, Robbinsville's debt and contingent liability profile is very weak. Total governmental fund debt service is 21.2% of total governmental fund expenditures, and net direct debt is 242.1% of total governmental fund revenue.

The township anticipates rolling over the notes and eventually take them out in 2019 or the following year.

After this issuance, Robbinsville will have approximately \$52 million in total direct debt outstanding. About \$15 million is in BANs. In our view, the township has no sizable debt authorizations that would weaken its debt factor.

Robbinsville's large pension and OPEB obligations are a credit weakness, in our opinion. The township's combined

required pension and actual OPEB contributions totaled 6.4% of total governmental fund expenditures in 2016. Of that amount, 4.2% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The township made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 54.5%.

The township participates in the cost-sharing multiple-employer Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS) pension plans. The plan fiduciary net position as a percent of the total pension liability, as defined in the Governmental Accounting Standards Board (GASB) Statement No. 67, was 54.52% for PFRS and 36.78% for PERS as of June 30, 2017. Although the plans' funded ratios have slightly improved since last year, they remain significantly underfunded. This is the result of numerous years of underfunding by the state, aggressive assumptions, and weak market performance. Under current funding assumptions, PFRS is projected to be exhausted by 2057 and PERS by 2040. This projection is based on a projected asset return of 7.00%, the plan actuary's modified mortality projection table, and the projected unit credit (PUC) actuarial methodology. We believe use of PUC understates liabilities and could result in inadequate plan assets. In addition, unfunded liabilities are amortized over an open 30-year period, which does not sufficiently pay down unfunded liabilities in a timely fashion.

Projections assume actuarial contributions are calculated in accordance with the state's plan to phase in a reduction to its funding discount rate to 7.00% from 7.50% in the next four years. We believe this change is positive in that it lowers the system's reliance on investment returns; however, it will also result in higher contributions for local government units.

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 common 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 more than a decade for either plan, we believe local government annual pension contributions may increase if assets allocated to the state for funding calculations become depleted. Legislation passed in 2017 transfers lottery revenue to PERS, PFRS, and the Teachers' Pension and Annuity Fund (TPAF), and changes the timing of pension funding payments from end-of-year to quarterly. We believe this legislation will have a moderately positive affect in that the state should no longer be able to completely abstain from making contributions. However, paying 100% of the actuarially determined contribution into the plans would mitigate the risk of becoming increasingly underfunded. 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.

The township also contributes to OPEB on a pay-as-you-go basis. In 2007 it negotiated with the unions and eliminated this benefit for future hires. Robbinsville's current OPEB liability totals \$16.9 million. There is no mechanism in place for the township to pre-fund this liability.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our opinion of Robbinsville's very strong liquidity and flexibility supported by the economy. Accordingly, we do not expect to raise or lower the rating within the two-year outlook horizon.

Downside scenario

Should Robbinsville face budgetary pressures due to increasing fixed costs, resulting in weaker fund balances, we could lower the rating.

Upside scenario

Should the township implement more formal financial management policies and if its overall debt and liabilities profile improves, while financial metrics remain strong, we could raise the rating.

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
- Local Government Pension And Other Postemployment Benefits Analysis: A Closer Look, Nov.8, 2017
- 2017 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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