

RatingsDirect®

Summary:

Englewood, New Jersey; General Obligation

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Summary:

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Credit Profile

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| US\$16.45 mil gen imp bnds ser 2014A | | |
| <i>Long Term Rating</i> | AA/Positive | New |
| US\$3.613 mil gen imp bnds ser 2014B | | |
| <i>Long Term Rating</i> | AA/Positive | New |
| Englewood gen imp bnds ser 2010 due 08/15/2035 | | |
| <i>Long Term Rating</i> | AA/Positive | Outlook Revised |

Rationale

Standard & Poor's Ratings Services revised its outlook to positive from stable and affirmed its 'AA' rating on Englewood, N.J.'s series 2010 general improvement general obligation (GO) bonds, based on Standard & Poor's local GO criteria released Sept. 12, 2013. At the same time, Standard & Poor's assigned its 'AA' rating, with a positive outlook, to Englewood's series 2014A and 2014B general improvement GO bonds.

The rating reflects our view of the city's:

- Very strong economy, which benefits from its participation in the broad and diverse New York City metropolitan statistical area (MSA);
- Adequate management;
- Strong budgetary flexibility, which has been improving for the past three years;
- Strong budgetary performance;
- Very strong liquidity;
- Adequate debt and contingent liabilities; and
- Strong institutional framework.

The bonds are supported by the city's GO pledge, and (unless paid from other sources) payable from ad valorem taxes levied on all taxable property within the city. The city is issuing the 2014 bonds to permanently finance the acquisition of a school and fund various capital projects.

Very strong economy

Located in Bergen County, N.J., Englewood's local economy is, in our opinion, very strong, with per capita market value and projected per capita effective buying income at roughly \$172,600 and 145% of the national average, respectively. With a 2010 census population of 27,147, the city is located in northern New Jersey, less than five miles from the George Washington Bridge. This population figure is up 3.6% from the corresponding figure 10 years' prior. This location, in our opinion, benefits residents by allowing them to participate in the New York City MSA.

The county's 2012 unemployment rate was 8.1%, according to U.S. Bureau of Labor Statistics, which compares favorably to the state's 9.5% unemployment rate over the same period. More locally, Englewood's recent

unemployment rate has been higher than the county rate, yet below the state's. The city, county, and state unemployment rates for 2013 were 7.8%, 7.2%, and 8.4% respectively.

Delinquent taxes, which peaked at \$3.7 million in 2009, have come down every year since. As of 2013, delinquent taxes are under \$100,000 -- a 97% decline from the city's recessionary high. Assessed valuation (AV) is off about 15% from its 2009 level. As of fiscal 2013, true AV stood at \$4.7 billion, down about \$825 million from 2009. The city's 2013 AV is approximately 72% residential and 18% commercial, with apartments, industrial property, and vacant land rounding out the remainder. The top 10 taxpayers are, in our opinion, very diverse, comprising less than 6% of the tax base.

Adequate management

In our view, Englewood's management conditions are adequate, with standard financial practices under our Financial Management Assessment methodology, indicating the government, in our opinion, maintains adequate policies in some, but not all, key areas. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring budget-to-actual results, and a long-term capital plan. While the city does undertake financial planning for the next one to two years, it does not maintain a longer-range plan. The city is compliant with state and local debt issuance guidelines, but does not maintain its own policies. Likewise, there are no formal or informal reserve policies.

Strong budgetary flexibility

In our view, Englewood's budgetary flexibility is strong, with fiscal 2012 available reserves at 9.9% of operating expenditures. After the nationwide recession began, reserves dipped to \$3.5 million in fiscal 2009. However, reserves have steadily rebounded since, reaching \$5.78 million in 2012. Although fiscal 2013 audited financials are not yet available, management anticipates reserve growth will surpass \$7 million, equaling approximately 12% of operating expenses. It is important to note that, despite the fact that the city's adopted budget allocates use of at least \$3 million in reserves per year, the city has managed to increase its fund balances. This is accomplished through careful and conservative budgeting practices, along with prudent cost-containment measures. Although the 2014 budget is not yet adopted, we do not see any factors that could potentially have a material negative effect on reserves.

Very strong liquidity

We believe very strong liquidity supports Englewood's finances, with total government available cash to government fund expenditures and cash to debt service at 18% and 2.6x, respectively. Based on past debt issuance, we believe the issuer has strong access to capital markets to meet liquidity needs, if necessary.

Strong budgetary performance

We view Englewood's budgetary performance as strong overall, with 1.2% surpluses for both the general fund and total governmental funds in fiscal 2012. The city has posted operating surpluses for the last three audited fiscal years, increasing the fund balance to \$5.78 million from \$3.49 million. Although the 2013 audit is not yet available, the city is anticipating another surplus of approximately \$1 million. As mentioned above, the 2014 budget is not yet adopted, but we do not see any factors that would indicate to us a substantial change in budgetary performance for the foreseeable future.

The city's two largest revenue sources are property taxes and state aid, averaging around 80% and just under 5%,

respectively.

Adequate debt and contingent liabilities profile

In our opinion, Englewood's debt and contingent liabilities profile is adequate. Net direct debt is 138.2% of total governmental funds revenue, and total governmental funds debt service is 6.8% of total governmental funds expenditures. Amortization is rapid, with approximately 70% of debt scheduled to be repaid over 10 years. We consider this a credit strength. Net debt to market value is 2.8%, which we consider low and another positive credit factor.

Substantially all employees are covered by one of three cost-sharing, multiple-employer, state-administered pension systems:

- The Public Employees' Retirement System,
- The Consolidated Police and Firemen's Pension Fund, and
- The Police and Firemen's Retirement System.

While the city did make 100% of its annual required pension contribution in 2013, its combined pension and other post-employment benefit costs amounted to just over 10% of all governmental expenditures. This is a sizeable payment, in our view, given the state's overall funded ratio and the potential for future increases.

Strong institutional framework

We consider the institutional framework score for New Jersey municipalities to be strong.

Outlook

The positive outlook reflects a one-in-three likelihood that we could raise the rating within the two-year outlook horizon. As mentioned above, the city benefits from its participation in the board and diverse New York City MSA. While this offers some stability from an economic perspective, it has yet to work its way into the city's unemployment level, which is higher than the county's. The city has posted multiple years of operating surpluses, which has allowed reserves to grow at a significant pace, in our opinion. If the city can grow its fund balances or even maintain them at their current levels for a sustained timeframe, we could raise the rating during the two-year outlook period. This is contingent, however, on no offsetting declines in other credit factors. Given the city's credit strengths, in particular its economy and financial results, and barring a sharp drop-off in financial results, we do not expect to lower the rating during the two-year outlook horizon.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments

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