STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Englewood, New Jersey; General Obligation

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Summary:

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Englewood GO		
Long Term Rating	AA/Stable	Outlook Revised

Rationale

Standard & Poor's Ratings Services revised its outlook on Englewood, N.J.'s general obligation (GO) bonds to stable from positive and affirmed its 'AA' rating on the city.

The outlook revision reflects the city's adequate budgetary performance, combined with a weakened fund balance position.

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 rating reflects our opinion of Englewood'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 methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with slight operating deficits in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 11.1% of operating expenditures;
- Very strong liquidity, with total government available cash at 20.9% of total governmental fund expenditures and 2.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.7% of expenditures and net direct debt that is 124.7% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 83% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Englewood's economy very strong. The city, with an estimated population of 28,045, is in Bergen County in the New York-Newark-Jersey City, N.Y.-N.J.-Pa. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 143% of the national level and per capita market value of $167,603. Overall, the city's market value grew by 0.5% over the past year to $4.7 billion in 2015. The county unemployment rate was 5.4% in 2014.

The city is located in Bergen County and is less than five miles from the George Washington Bridge. The city is primarily residential, yet has a healthy commercial and retail component. Given its location and ease of access to the diverse regional employment, many residents find employment in New York City and northern New Jersey. In addition, we expect continued modest tax base growth over the next several years as economic development projects, with a few mix-used sites, are in various stages of planning and construction. The city is expecting that by 2018 a majority in progress projects will be completed and on the tax rolls by 2018.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department 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.

Adequate budgetary performance

Englewood's budgetary performance is adequate in our opinion. The city had slight operating deficits of negative 0.8% of expenditures in the general fund and of negative 0.8% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

The city ended fiscal 2014 with a slight draw down. The draw down was planned, as the city used reserves for tax stabilization purposes.

The city recently closed fiscal 2015. The fiscal 2015 budget was a slight increase in comparison, about $64,000 and calls for the use of $4.3 million of fund balance. The city anticipates ending the fiscal year end with another draw down of fund balance of about around $1.1 million. With amount of the draw down, we expect that the city's net result would be in excess of negative 1%, therefore weakening its budgetary performance to what we consider adequate. Similarly to 2014, the city did use fund balance for tax stabilization.

Moving forward, the city is expecting several of the economic development projects to come onto the tax rolls, as well as receive one-time revenues related to a sale of city property, which should offset increasing expenses. The city has a preliminary budget for fiscal 2016 that includes a 1% tax increase and appropriated $2.3 million for the budget, a lower amount than previous years. The city expects that a majority of new property taxes will affect the city in fiscal 2017/2018.

Strong budgetary flexibility

Englewood's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 11.1% of operating expenditures, or $6.6 million.

The city used fund balance for the past two years, in fiscal 2014 and 2015 to help stabilize the tax rate for city residents. The city expects to maintain fund balance of about $5 million moving forward. Historically the city has remained within its tax levy limitation. In fiscal 2016, the city expects to raise taxes by 1%.

Very strong liquidity

In our opinion, Englewood's liquidity is very strong, with total government available cash at 20.9% of total governmental fund expenditures and 2.7x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We believe the city has strong access to external liquidity as it has issued GO debt over the past 15 years. Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events. In addition, the borough does not have any investments we deem aggressive.

Adequate debt and contingent liability profile

In our view, Englewood's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.7% of total governmental fund expenditures, and net direct debt is 124.7% of total governmental fund revenue. Overall net debt is low at 2.6% of market value, and approximately 83% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The city does not have major future debt plans.

In our opinion, a credit weakness is Englewood's large pension and OPEB obligation. Englewood's combined required pension and actual OPEB contributions totaled 9.5% of total governmental fund expenditures in 2014. Of that amount, 7.8% represented required contributions to pension obligations, and 1.7% represented OPEB payments. The city made its full annual required pension contribution in 2014. The funded ratio of the largest pension plan is 74.4%.

The city participates in the state-administered Police and Fireman's Retirement System (PFRS) and Public Employees' Retirement System (PERS) for pension benefits. The city also provides OPEBs, mainly health care, to eligible employees. The city's retirement contributions are elevated and likely to increase in the near term. If the costs continue to rise, without a management plan in place, it could put pressure on the debt and liability score, as well as the city's credit rating.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our expectation that the rating will not change during the two-year outlook period. We expect that the city will maintain at least strong budgetary flexibility and liquidity and adequate or better budgetary performance. The outlook further reflects the city's very strong economy with strong wealth and income numbers and good access to the diverse employment bases of Northern New Jersey and New York City as well as its very strong liquidity.

Upside scenario

We could raise the rating if the city's budgetary flexibility were to rise to a level we consider very strong couple with formalized financial policies per our financial management assessment criteria, we could raise the rating.

Downside scenario

If the city's budgetary flexibility were to deteriorate to a level we consider adequate or worse, resulting in weak or very weak budgetary performance, we could lower the rating.

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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- 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
- Institutional Framework Overview: New Jersey 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.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.