

RatingsDirect®

Summary:

Englewood, New Jersey; Note

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Credit Profile

US\$11.708 mil BANs ser 2022 due 03/16/2023

Short Term Rating

SP-1+

New

Rating Action

S&P Global Ratings assigned its 'SP-1+' short-term rating to Englewood, N.J.'s roughly \$11.708 million bond anticipation notes (BANs).

A full-faith-and-credit pledge, including an agreement to levy unlimited ad valorem taxes on all taxable property within city limits, secures the BANs.

Officials intend to use note proceeds to renew \$8.708 million of notes as well as toward \$3 million of various capital improvement projects.

The short-term rating on the BANs reflects our high investment-grade long-term rating and the city's low market-risk profile. In our view, and in accordance with our criteria, titled "Bond Anticipation Note Rating Methodology," published Aug. 31, 2011, on RatingsDirect, we assess market risk as low because of Englewood's strong market access, information availability, and takeout authorization.

Credit overview

The rating reflects our view of Englewood's very strong economy and stable property tax base with access to the New York City metropolitan statistical area (MSA). After experiencing a large fund-balance increase in fiscal 2018 and subsequent large debt reductions in fiscal 2019, reserves have remained stable at levels closer to 8% of expenditures during the past three fiscal years, followed by steady financial performance. We expect the city's financial profile will likely remain stable; however, we think the rating faces long-term pressure with large retirement costs and liabilities.

The rating reflects our view of the city's:

- Stable economy with access to the New York City MSA;
- Adequate financial management with standard financial management policies and practices under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas, with a strong Institutional Framework score;
- Steady financial performance and deliberate draws on reserves, which should remain strong; and
- Manageable debt with large pension and other postemployment benefit (OPEB) liabilities.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to Englewood's economy, budgetary outcomes, management, and debt and long-term liability profile; we view them as generally consistent with the sector. However, we view the state's governance of its pension plans and the lack of a mechanism to prefund OPEBs as a weakness for New Jersey local governments.

Stable Outlook

Upside scenario

We could raise the rating if management were to continue to improve reserves consistently through positive financial performance while strengthening financial management policies and procedures, including annual long-term financial planning consistently, coupled with managing retirement costs.

Downside scenario

We could lower the rating if management were to reduce fund balance because of fiscal pressure, including increasing retirement costs, beyond the informal target.

Credit Opinion

An affluent residential community benefiting from access to New York City

The roughly five-square-mile Englewood is a relatively affluent, residential community with a healthy commercial and retail component, across the Hudson River from New York City. Due to its location and ease of access to diverse regional employment, many residents find employment in New York City and northern New Jersey, which has contributed to above-average wealth and income compared with state and national levels. The city has not reported any slowdown due to COVID-19, and market value has increased by slightly less than 6% during the past year due to the development of a \$36.5 million apartment complex. We expect the economy will likely remain stable.

Standard financial management practices

Highlights include management's:

- Use of historical trend analysis for budget preparation, looking back five years for revenue and expenditures;
- Budget assumptions that, particularly within the past couple of fiscal years, have been conservative--in addition, the city passed a purchasing-procedure memo to help maintain various expenditure controls;
- Monthly budget-to-actual reports to the city council;
- Formal five-year financial projections that management expects to update annually as part of budgeting, although the city did not update it during fiscal years 2020 and 2021 due to COVID-19;
- Maintenance of a rolling five-year capital improvement plan that identifies projects, albeit not all funding sources in all fiscal years; and
- Cash management plan that mirrors state guidelines.

We note that while Englewood does not maintain formal debt management or reserve policies, it remains in

compliance with state guidelines. In addition, we understand management informally targets maintaining a minimum fund balance between \$4 million and \$5 million.

A steady financial performance with surpluses used to pay down debt and prepay school taxes

Property taxes generate 84% of general fund revenue. Englewood has generated steady results during the past three fiscal years.

We adjusted fiscal 2019 results to account for a large one-time principal-and-interest BAN payment. In fiscal 2019, officials used about \$7.3 million in fund balance to reduce debt after increasing reserves by more than \$9 million in fiscal 2018 due to one-time revenue related to the lease renewal of a city-owned affordable-housing project.

Following break-even results in fiscal 2020, fund balance decreased by a further \$200,000 to a total of \$5.5 million; we understand the city prepaid about \$825,000 in school taxes. New Jersey municipalities collect and distribute property taxes for school districts and counties. Management did this as a one-time measure due to COVID-19. Without this prepayment, fund balance would have increased to about \$6.3 million due partially to cost savings that offset some local revenue shortfalls from hotel taxes and parking fines.

Officials are projecting strong results in fiscal 2021 with fund balance expected to increase to \$8.7 million, less \$2.2 million appropriated in the fiscal 2022 budget; this results in a final projected fund balance of \$6.6 million, or approximately 9% of expenditures. Officials are projecting a flat fiscal 2022 budget compared with fiscal 2021. The city has also received half its \$3 million American Rescue Plan Act of 2021 allocation, which it intends to use on sewer projects and other capital needs. Due to stable financial performance and no plans to draw on reserves, we expect finances will likely remain strong.

In our opinion, Englewood has strong access to external liquidity because it has issued GO debt during the past 20 years. Management confirmed it does not have any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. In addition, we do not consider the city's investment portfolio aggressive because Englewood maintains most liquidity in cash or certificates of deposit. We do not expect any material changes to liquidity during the next few fiscal years.

Ongoing debt needs are in line with the capital improvement plan

With this issuance, Englewood will have about \$76.4 million in total direct debt. Officials have authorized \$9 million of additional debt for various capital improvements; projects should total \$11 million, but the city expects the Federal Emergency Management Agency will reimburse up to \$4 million. Officials currently expect to issue new-money debt every three years as they have done historically. Overall, we do not expect this additional debt will likely have a material effect on the debt profile.

Pension and OPEB liabilities continue to pressure the budget

- We view pension and OPEB liabilities as a credit pressure for Englewood, similar to most New Jersey local governments. Although the city handles retirement liability expenses, we expect costs will likely increase and be volatile.
- Englewood funds OPEB liabilities on a pay-as-you-go basis, which--due to claims volatility and medical cost and demographic trends--is likely to lead to higher short-term costs. While the city has some legal flexibility to alter OPEBs, it cannot prefund these costs, increasing the risk these benefits could create budgetary pressure.

Englewood participates in:

- New Jersey Police & Firemen's Retirement System, a state-administered plan, which is 58.8% funded, with a crossover date in 2062, with a proportional share of the net pension liability (NPL) equal to \$82.8 million;
- New Jersey Public Employees' Retirement System, a state-administered plan, which is 42.9% funded, with a crossover date in 2046, with a proportional share of the NPL equal to \$47.2 million; and
- New Jersey's defined-benefit health-care plan that provides retiree health care until death, which is 0.89% funded, with an OPEB liability of about \$36.5 million.

Although Englewood funds 100% of actuarially determined contributions (ADCs), contributions fell short of static and minimum funding progress metrics due partially to poor assumptions and methodologies but also due to the state's continued underfunding of its ADC portion. The plans' 30-year, level-dollar, open-amortization schedule will likely result in slow funding progress. (For more details and information on these risks, see our report, titled "New Jersey Pension Funding: State Actions Reverberate At The Local Level," published Dec. 12, 2018.) Although the state did not make up for lottery contribution shortfalls in fiscal 2020, its adopted fiscal 2022 budget includes pension funding exceeding the full ADC for the first time in 25 years, which we view positively.

Englewood also provides eligible employees with OPEBs through the state health benefits program, a cost-sharing, multiple-employer, defined-benefit, postemployment, health care plan administered by New Jersey Division of Pensions & Benefits. This plan offers eligible employees retiree health care benefits until Medicare eligibility. In new union contracts, newly retired employees will pay 10% of the cost. Englewood funds these benefits on a pay-as-you-go basis, with no mechanism in place that allows prefunding, limiting its ability to plan for rapidly escalating costs.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Englewood, NJ -- Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	139			
Market value per capita (\$)	194,118			
Population	28,299	28,782	28,384	
County unemployment rate(%)	9.6			
Market value (\$000)	5,493,333	5,189,539	5,115,166	
Ten largest taxpayers % of taxable value	7.4			
Strong budgetary performance				
Operating fund result % of expenditures	(0.4)	1.8	1.1	
Total governmental fund result % of expenditures	(0.4)	0.9	1.1	
Strong budgetary flexibility				
Available reserves % of operating expenditures	8.0	8.6	20.2	
Total available reserves (\$000)	5,464	5,707	13,021	

Englewood, NJ -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Very strong liquidity				
Total government cash % of governmental fund expenditures		23	20	28
Total government cash % of governmental fund debt service		234	189	264
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.7	10.5	10.7
Net direct debt % of governmental fund revenue	112			
Overall net debt % of market value	2.2			
Direct debt 10-year amortization (%)	62			
Required pension contribution % of governmental fund expenditures		8.9		
OPEB actual contribution % of governmental fund expenditures		1.8		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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