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## Summary:

# South Orange Village Township, New Jersey; General Obligation; Note

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### Credit Profile

US\$13.127 mil BANs due 07/05/2023		
<i>Short Term Rating</i>	SP-1+	New
US\$8.556 mil wtr util BANs due 07/05/2023		
<i>Short Term Rating</i>	SP-1+	New
South Orange Vill BANs ser 2021 due 07/01/2022		
<i>Short Term Rating</i>	SP-1+	Current
South Orange Vill GO bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded

## Rating Action

S&P Global Ratings raised its long-term rating on South Orange Village Township, N.J.'s general obligation (GO) bonds outstanding one notch to 'AA' from 'AA-'. The outlook is stable.

We base the one-notch upgrade on the township's strong financial trajectory in recent years including through the COVID-19 pandemic, with available general fund increasing to what we consider a strong 13.4% at fiscal year-end 2021 according to unaudited actual results, supported by good financial policies and practices and an affluent, diverse residential tax base.

At the same time, we assigned our 'SP-1+' short-term rating to South Orange Village Township's \$21.7 million bond anticipation notes (BANs).

The full-faith-and-credit GO pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the BANs being issued as well as the township's bonds outstanding.

The short-term rating reflects our opinion of South Orange Village Township's general creditworthiness and market risk profile, which we consider low. The low market risk profile reflects our view of the township's strong legal authority to issue long-term debt to take out the BANs, as well as the township's ongoing disclosure to market participants. Officials intend to use BAN proceeds to rollover previously issued BANs and temporarily finance water utility projects.

### Credit overview

South Orange Village Township's general credit worthiness is characterized by the township's strong operating performance throughout the pandemic despite some of the revenue pressures imposed by the pandemic. Specifically, in the past few fiscal years, management's emphasis on building reserves through conservative budgeting has

increased the township's flexibility to withstand potential adverse operating conditions. According to unaudited results at the end of fiscal 2021, South Orange Village Township's fund balance stood at 13.4%, which is above the township's formally adopted fund balance policy of one-month expenditures in reserve. Furthermore, the township's diverse, affluent, and residential tax base continues to see consistent residential projects, which are expected to lead to good tax base growth over the outlook period.

The rating also reflects our view of South Orange Village Township's:

- Affluent, diverse residential tax base that continues to see stable growth;
- Strong operating performance through the pandemic, with increases to available current fund reserves;
- Strong financial policies and practices in addition to a strong institutional framework score; and
- Very weak debt profile, due in part to a large level of overlapping debt, in addition to large pension liabilities, offset in part by the fact that the township does not provide other postemployment benefits (OPEB).

### **Environmental, social, and governance (ESG)**

We have analyzed South Orange Village Township's social factors and believe the township's social risks are consistent with those of the sector. Furthermore, although we view the state's governance of its pension plans and lack of a mechanism to prefund OPEB as weaknesses for New Jersey local governments, these issues affect all New Jersey local governments similarly. We view the township's environmental risks to be in line with the sector. We understand South Orange Village Township has paid particular attention to enhancing stormwater remediation in recent years.

## **Stable Outlook**

### **Upside scenario**

If the township continues to maintain strong budgetary performance, resulting in sustained higher fund balances levels, and if its fixed costs moderate, we could raise the rating within the outlook period.

### **Downside scenario**

Although unexpected at present given the township's positive financial and economic momentum, if reserves fall relative to expenditures, or if the township faces competing budget priorities such as funding retirement costs versus maintaining balanced operations, we could take a negative rating action.

## **Credit Opinion**

### **Affluent, diverse residential tax base that continues to see stable growth**

South Orange Village Township, with an estimated population of 18,484, is located in Essex County in the New York-Newark-Jersey City metropolitan statistical area (MSA), which we consider to be broad and diverse. The 2.9-square-mile, primarily residential, township is about five miles west of Newark and about 20 miles from New York City. Seton Hall University is within the township's borders, and otherwise, residential property accounts for 93% of the total assessment. South Orange Village Township has access to the greater New York City MSA through the Garden State Parkway and New Jersey Transit rail and bus stations. Ongoing redevelopment includes several

residential mixed-use developments. South Orange Village Township is also looking to improve its streetscaping in its downtown area, among other capital projects, that should improve overall quality of life within the township. Management and residents have collaborated on the township's master plan--the first was in 1978--which should address a variety of concerns and provide additional structure surrounding future residential and commercial developments.

### **Strong financial policies and practices in addition to a strong institutional framework score**

Management performs a trend analysis when budgeting, looking back at least five years at revenue and expenses. Management provides monthly reports on budget-to-actual results to a finance committee with ad hoc wider reports to the township board. South Orange Village Township performs and maintains a three-year, long-term financial surplus projection it updates yearly. The township also has a rolling six-year capital plan with funding sources identified, which it updates yearly. In addition, the township has a formal cash management plan with monthly reports to the finance committee. In 2019, South Orange Village Township adopted a reserve policy that targets maintaining a fund balance equal to one month of previous-year budgeted operating expenditures. The township remains in compliance with this target.

While South Orange Village Township does not have a formal debt policy, there is an informal target. Management's goal is to not authorize more debt than it retires annually.

### **Strong operating performance through the pandemic, with increases to available current fund reserves**

Property taxes generate 65% of current fund revenue, with miscellaneous items accounting for the remainder. Officials report property tax collections remain strong, with no uptick in delinquencies related to the pandemic.

In fiscal 2020, we understand that in anticipation of revenue loss given the onset of the pandemic at the beginning of the fiscal year, management froze raises at 2% and cut back on capital projects. Nevertheless, at fiscal year-end current fund revenue of \$37.4 million came in above budget while expenses were nearly \$1.0 million below budget, which helped contribute to a \$1.4 million increase in the fund balance.

The town's annual financial statements for 2021 shows another strong year, with available reserves increasing by \$1.5 million to \$5.1 million, or a strong 13.4% of expenses. Management cites continued strong property tax collections and cost containment as the primary drivers for the strong operating surplus. Furthermore, we recognize the township has an additional \$691,000 of levy cap bank, which it could use in future budgets if necessary, providing some additional financial flexibility.

The 2022 budget has been introduced and totals \$41.0 million, representing a 6.0% increase above the previous year. We note that as part of the budget, the township used a three-year rolling average for its miscellaneous revenues, which provides conservative estimates for those revenues. The county has allocated about \$1.75 million in American Rescue Plan funds to South Orange Village Township, which we understand will be used for a range of one-time projects. Management indicates that it currently expects to add at least another \$200,000 to the fund balance at year-end.

**Very weak debt profile, due in part to a high level of overlapping debt**

We assume at least level funding over a 20-year period for the amortization of the township's BANs when calculating amortization of total debt outstanding. Outside of the BANs, debt amortizes fully by 2034. Outside of permanently financing BANs, officials currently plan to authorize \$3.0 million-\$3.5 million in GO debt and about \$500,000 in utility capital debt on average annually, offset by simultaneously amortized debt.

Pension highlights include:

- We view pensions as a source of credit pressure for South Orange Village Township, as they are with most New Jersey local governments.
- While it is currently managing pension costs, we believe the township has limited ability to control future growth of these liabilities, given state restrictions and funding discipline.
- South Orange Village Township's pension contributions totaled 9.1% of total governmental fund expenditures in 2020.

At Dec. 31, 2020, the township participates in:

- New Jersey Police & Firemen's Retirement System, which is 58.8% funded with a crossover date in fiscal 2062, with a \$43.8 million proportional share of the net pension liability.
- New Jersey Public Employees' Retirement System, which is 42.9% funded with a crossover date in fiscal 2046, with a \$24.8 million proportional share of the net pension liability.

We consider the township not offering OPEB to employees or having outstanding liabilities as positive factors.

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

**Strong institutional framework**

The institutional framework score for New Jersey municipalities is strong.

South Orange Village Township, N.J.--Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	181			
Market value per capita (\$)	168,890			
Population (no.)	18,484	18,484	16,751	16,532

**South Orange Village Township, N.J.--Key Credit Metrics (cont.)**

	Most recent	Historical information		
		2020	2019	2018
County unemployment rate(%)	8.0			
Market value (\$000)	3,121,762	3,128,704	3,128,448	
Ten largest taxpayers % of taxable value	2.6			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		3.8	(1.6)	3.2
Total governmental fund result % of expenditures		3.8	(1.6)	3.2
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		9.9	6.0	7.5
Total available reserves (\$000)		3,558	2,188	2,764
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		27	19	18
Total government cash % of governmental fund debt service		178	135	139
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Very weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		15.2	14.1	13.1
Net direct debt % of governmental fund revenue	172			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	79			
Required pension contribution % of governmental fund expenditures		9.1		
OPEB actual contribution % of governmental fund expenditures		0		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- Credit Conditions North America Q2 2022: Hazard Ahead: Risk Intersection, March 29, 2022
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2021 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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating

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