

# RatingsDirect®

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## Summary:

# Hamilton Township, New Jersey; General Obligation; Note

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## Summary:

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### Credit Profile

US\$69.257 mil BANs ser 2023 due 02/13/2024

*Short Term Rating* SP-1+ New

Hamilton Twp (Mercer Cnty) GO

*Long Term Rating* AA/Stable Affirmed

Hamilton Twp (Mercer Cnty) GO gen imp rfdg bnds & swr util rfdg bnds

*Long Term Rating* AA/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Hamilton Township, N.J.'s series 2023 \$69.2 million bond anticipation notes (BANs).
- At the same time, we affirmed our 'AA' long-term rating on the township's outstanding general obligation (GO) bonds.
- The outlook is stable.

### Security

Hamilton's full-faith-and-credit pledge, including the agreement to levy ad valorem property taxes without limitation as to rate or amount, secures the BANs and GO bonds.

The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Hamilton maintains very strong capacity to pay principal and interest when the BANs come due. It has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the BANs, frequently issues debt, and regularly provides disclosure to market participants. Proceeds from the notes will be used to roll over existing notes and to finance general improvements.

### Credit overview

The strong revenue base and management's conservative budgeting approach have allowed the township to maintain balanced operations over the past few years and to steadily improve reserve levels despite absorbing and consolidating the operations of the five separate fire companies in 2021. The continued expansion of the tax base supports the township, which is dependent on property tax, as it faces rising costs. The rating is constrained by the township's very weak debt and liability profile, including its large pension liabilities, and slightly weaker reserve levels compared with those of its peers.

The rating reflects our view of the township's:

- Growing local economy within the Trenton metropolitan statistical area, which we consider broad and diverse;
- Financial management policies and practices that focus on long-term planning, and a strong institutional framework;
- History of strong performance, resulting in a growing fund balance while maintaining strong liquidity; and
- Manageable debt levels, with high pension and other postemployment benefit (OPEB) costs.

### **Environmental, social and governance**

We have analyzed the township's environmental and social risks and view them as neutral within our credit analysis. 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.

## **Outlook**

The stable outlook reflects our opinion of Hamilton's stable operating performance, which is supported by strong management and a strong local economy, as well as its access to a broad and diverse MSA that provides further stability. Therefore, we do not expect to change the rating within our two-year outlook horizon.

### **Downside scenario**

We could lower the rating if the township's performance materially weakens, leading to a sustained draw on reserves.

### **Upside scenario**

If the township's local economy continues to grow and expand and operations remain strong, leading to maintenance of very strong reserves, we may take positive action on the township's rating.

## **Credit Opinion**

### **Ongoing development within the township drives continuous tax base diversification**

Hamilton is located just north of Trenton, about one hour from Philadelphia. The Hamilton Transit Center provides direct access to New York City via New Jersey Transit's northeast corridor rail line. The township has a strong, diverse tax base that is continuing to expand, with ongoing residential, industrial, and commercial developments. In 2022, the township's residential and construction permits were 24% higher than in 2019. The township is anticipating payment in lieu of taxes (PILOT) revenue from two warehouses during calendar year 2023, while additional warehouse projects are due to come online. We expect these projects, along with additional residential development, a new cannabis cultivation facility, and an expansion by the Genesis Biotechnology Group, to boost the tax base.

### **Good policies and practices**

Management uses a three-year lookback when formulating the budget and develops two years of projections. Officials monitor the budget closely, with monthly budget-to-actual reports provided to the council. Transfers and emergency appropriations allow for budget amendments, in accordance with state guidelines. Hamilton maintains and updates annually an informal financial forecast for major revenue and expenditures for the current year plus the next two budget years, and includes two prior years of actual results for reference. Management updates a six-year rolling capital improvement plan annually and includes it in the budget. It details project costs and sources for all years,

although in greater detail for the current year. A formally adopted cash management plan governs investments, with balances reported to the council quarterly. While the township has no formalized debt or reserve policies, it does maintain an informal reserve target, which it recently increased to \$6 million to \$9 million. The goal of the target is to provide liquidity in case of emergency or unforeseen expenditures. We note that the township has taken steps to insulate itself from cyber security risks.

The institutional framework score for New Jersey municipalities is strong.

### **Increasing revenues offset growing expenses and drive historical fund balance levels**

The township's performance over the past few fiscal years has been strong, with consistent regeneration of its appropriated fund balance. Management attributes this trend to strong tax collection rates, which is its main source of revenue at 70%. On the expense side, the township monitors expenses and uses grants where available to offset expenses. In 2021, the township created a fire department by absorbing and consolidating the operations of the five separate fire companies with the help of a \$2 million grant from the state, which allowed for the consolidation and standardization of equipment, contract negotiations with unions, and other expenses. The overall increase in expenses is about \$28 million; however, there will be ongoing operational savings and the taxing authority of the consolidated fire districts has reverted to the township.

Hamilton's 2022 budget was \$149.0 million and included \$7.4 million in appropriated reserves. The township budgeted for a 99.75% tax collection rate, whereas actual collections are higher. The township is also using part of its \$17.1 million in American Rescue Plan Act (ARPA) funding to reimburse previously incurred expenses and as revenue replacement. Based on preliminary expectations, the township fully anticipates regenerating the surplus appropriated. Management is currently working on its 2023 budget.

Hamilton's performance over the past few years has increased reserves to levels we consider strong. Based on early projections, management believes it will be able to fully regenerate the fund balance appropriated in its 2022 budget. As such, we expect at least strong levels, despite the anticipated use of fund balance in the 2023 budget. Hamilton does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits.

### **Anticipated additional borrowing**

Subsequent to this issuance, the township will have about \$153.3 million in total direct debt, including about \$69.2 million in short-term debt and \$48.0 million in sewer utility-related debt. We note that we excluded the BAN in our amortization calculation; however, the township's general improvement debt retires within 10 years, while 61% of the sewer utility debt will be amortized over the same time period. The township may issue some additional debt over the next couple of years, including about \$30 million for a joint municipal complex with the school board, which has yet to be authorized, although roughly \$4 million has been authorized for designs and other soft costs. We do not expect to change our view of its debt profile in the outlook period.

### **Large pension and OPEB obligation**

We view pensions as a source of credit pressure for Hamilton, as 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. OPEBs are, by state statute, funded on a pay-as-you-go basis,

which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

Hamilton participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 71.4% funded, with a proportional share of the net pension liability (NPL) equal to \$64.1 million.
- Public Employees' Retirement System: 51.5% funded, with a proportional share of the NPL equal to \$41.1 million.
- A single-employer retiree health care plan that is by statute pay-as-you-go funded, with a proportionate share of the net OPEB liability equal to \$389.3 million.

Although it funds 100% of its actuarially determined contributions (ADCs) for pensions, contributions fell short of both static and minimum funding progress, in part because of poor assumptions and methodologies, but also due to the state's underfunding of its portion of the ADC. The plans' 30-year, level-dollar open amortization schedule will result in slow funding progress. For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect. If pension or OPEB costs escalate, we believe these expenditures could crowd out others associated with operations and create budgetary pressure over the long term.

Hamilton Township, New Jersey -- Key Credit Metrics				
	Most recent	Historical information		
		2021	2020	2019
<b>Strong economy</b>				
Projected per capita EBI % of U.S.	107.6			
Market value per capita (\$)	121,455			
Population		86,486	87,495	89,126
County unemployment rate (%)		5.2		
Market value (\$000)	10,504,163	9,530,775	9,262,659	
Ten largest taxpayers % of taxable value	4.7			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		3.9	3.7	(1.8)
Total governmental fund result % of expenditures		3.9	3.7	(1.8)
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		10.8	9.5	5.7
Total available reserves (\$000)		15,966	10,107	6,131
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		29.9	25.4	18.1
Total government cash % of governmental fund debt service		393.5	257.4	188.1
<b>Strong management</b>				
Financial Management Assessment	Good			
<b>Weak debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		7.6	9.9	9.6
Net direct debt % of governmental fund revenue	70.4			
Overall net debt % of market value	2.8			

**Hamilton Township, New Jersey -- Key Credit Metrics (cont.)**

	Most recent	Historical information		
		2021	2020	2019
Direct debt 10-year amortization (%)	41.3			
Required pension contribution % of governmental fund expenditures		6.9		
OPEB actual contribution % of governmental fund expenditures		6.2		

**Strong institutional framework**

**EBI--Effective buying income. OPEB--Other postemployment benefits.**

Data points and ratios may reflect analytical adjustments.

**Related Research**

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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