

RatingsDirect®

Summary:

Hamilton Township, New Jersey; General Obligation; Note

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Credit Profile

US\$25.0 mil BANs ser 2024B due 10/09/2025

<i>Short Term Rating</i>	SP-1+	New
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Hamilton Township (Mercer County) BANs

<i>Short Term Rating</i>	SP-1+	Affirmed
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Hamilton Twp (Mercer Cnty) GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Hamilton Twp (Mercer Cnty) GO gen imp rfdg bnds & swr util rfdg bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Hamilton Township, N.J.'s \$25 million series 2024B bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the township's general obligation (GO) bonds outstanding based on the application of its criteria "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.
- Finally, S&P Global Ratings affirmed its 'SP-1+' short-term rating on the township's previously issued BANs.
- The outlook, where applicable, is stable.

Security

Hamilton's full faith and credit, 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 make principal-and-interest payments when the BANs come due. The township has what we view as a low market risk profile in that 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. Officials will use series 2024B proceeds to partly finance a new municipal complex owned by the township.

Credit overview

The rating reflects our view of Hamilton Township's steadily growing economy that anchors healthy operations and stable reserves. Revenue growth continues, supported by conservative budgeting. Ongoing property tax base development will likely provide additional revenue through building permits, payment-in-lieu-of-taxes (PILOT) agreements, and other sources. While costs of debt and liabilities are manageable, the township's large unfunded pension liabilities and other postemployment benefits (OPEBs) remain a credit pressure.

The rating further reflects our view of the township's:

- Very strong regional economy, highlighted by per capita gross county product and per capita effective buying income above national averages;
- Historically positive operating results we expect will continue into fiscal 2024;
- Stable available reserves over the past several years, despite their being slightly weaker than those of similarly rated peers;
- Conservative budgeting contributing to historically positive results, in addition to budget monitoring and an annually updated capital improvement plan included in the budget; and
- Manageable fixed costs despite an upcoming capital project, coupled with large unfunded pension liabilities and OPEB costs.

For more information on our institutional framework assessment for New Jersey municipalities, see "Institutional Framework Assessment: New Jersey Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We have analyzed environmental and social factors 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. Despite the township's access to the Delaware River, we do not view physical risk as a material credit concern. The township is taking steps to mitigate cyber risk.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Hamilton's stable operating performance, supported by a strong local and regional economy. We do not expect to change the rating within our two-year outlook period.

Downside scenario

We could lower the rating if budgetary performance were to weaken, leading to draws on reserves without plans to replenish, or if long-term liabilities were to increase and pressure budgetary performance.

Upside scenario

We could raise the rating if the township were to improve and sustain reserves at levels comparable with those of higher-rated peers, and if additional financial policies and practices were implemented.

Credit Opinion

Economy

Hamilton is just north of Trenton, about one hour from Philadelphia. Ongoing residential and commercial development support tax base diversification and growth. Various warehouse projects are coming on line, providing an increase in PILOT revenue. Other smaller warehouse projects are in various stages of development, as are residential projects. Cultivation, manufacturing, and testing facilities for cannabis are being expanded, and this, along with other projects, will support Hamilton's growing tax base. Recent developments include the opening of a new cannabis manufacturer

and the breaking of ground on a second. We expect the economy to remain stable.

Financial performance, reserves, and liquidity

Operations were positive in fiscal 2023, as officials noted that receipts from taxes and delinquent taxes exceeded budget expectations. Property tax collections remained strong with the township collecting roughly 99.9% of its levy. Moreover, the township received additional miscellaneous revenue during the year, largely through state and federal grants, that supported year-end results. Management has been proficient at managing expenses and maintaining conservative budgeting. Property taxes are the primary revenue source at roughly 65%.

The fiscal 2024 budget totals \$162.58 million, a 3% increase on the prior year. It includes an 8.48% increase in the tax rate to cover increased costs associated with garbage collection and recycling (\$8 million budgeted, as well as a 15% increase in health care costs). According to officials, the 2024 budget is tracking near estimates with no unexpected costs incurred thus far, and the township expects to maintain reserves in line with those of prior years. Hamilton does not invest aggressively or have any exposure to variable-rate or privately placed debt. Holdings are largely in bank deposits. Overall, we expect the financial profile to remain stable.

Management

Highlights of Hamilton's policies and practices include:

- 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 to the township council, and transfers and emergency appropriations allow for budget amendments in accordance with state guidelines.
- Hamilton annually maintains and updates an informal financial forecast for major revenue and expenditures for the current year plus the next two budget years, including two prior years of actual results for reference.
- Management annually updates a six-year, rolling capital improvement plan, which it includes in the budget, and it details project costs and sources for all years, albeit 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 lacks formal debt or reserve policies, it maintains an informal reserve target which it recently increased to \$6 million to \$9 million, and the goal is to provide liquidity in case of emergency or unforeseen expenditures.

Debt and liabilities

Including this BAN issuance, Hamilton will have about \$169.3 million of total direct debt, including about \$79.5 million in short-term debt. The series 2024B BANs is the first issuance for the municipal building project, with another \$25 million expected in 2025. The township also anticipates issuing roughly \$10 million a year for general capital projects in the next several years. While costs of debt and liabilities could increase with the additional debt, Hamilton plans to layer on debt after 2025 when debt service declines, and we expect that it will maintain operations without significant stress.

In addition, the township's pension liabilities per capita will likely remain high given its \$155 million combined liability from participation in the state Police and Firemen's Retirement System (65% funded) and Public Employees' Retirement System (48% funded). Both of the plans have weaker funding resulting from the state's historical

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underfunding of its contributions. We also project slow funding progress given the 30-year amortization schedule. (For more information see "Pension Spotlight: New Jersey," published June 21, 2022.) The state also prevents the township from prefunding its \$466 million OPEB liability with no funding mechanism in place.

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Table 2

Hamilton Township, New Jersey--Key credit metrics				
	Most recent	2023	2022	2021
Economy				
GCP per capita as % of U.S.	173	--	173	167
County PCPI as % of U.S.	121	--	121	121
Market value (\$000s)	11,767,612	11,767,612	10,504,163	9,530,775
Market value per capita (\$)	128,087	128,087	116,016	110,200
Top 10 taxpayers as % of taxable value	5	5	5	5
County unemployment rate (%)	3.9	3.9	3.3	5.5
Local median household EBI as % of U.S.	119	119	115	114
Local per capita EBI as % of U.S.	110	110	108	105
Local population	91,872	91,872	90,541	86,486
Financial performance				
Operating fund revenue (\$000s)	--	165,768	150,243	153,538
Operating fund expenditures (\$000s)	--	164,419	152,677	147,821
Net transfers and other adjustments (\$000s)	--	152	--	143
Operating result (\$000s)	--	1,501	(2,434)	5,860
Operating result as % of revenue	--	0.9	(1.6)	3.8
Operating result three-year average %	--	1.0	1.9	1.9
Reserves and liquidity				
Available reserves as % of operating revenue	--	9.1	9.0	10.4
Available reserves (\$000s)	--	15,032	13,532	15,966
Debt and liabilities				
Debt service cost as % of revenues	6.9	6.9	7.6	7.3
Net direct debt per capita (\$)	1,530	1,530	1,340	1,454
Net direct debt (\$000s)	140,603	140,603	121,293	125,724
Direct debt 10-year amortization (%)	38	38	--	--
Pension and OPEB cost as % of revenue	15	15	15	13

Table 2

Hamilton Township, New Jersey--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Net pension liabilities per capita (\$)	1,688	1,688	1,246	918
Combined net pension liabilities (\$000s)	155,051	155,051	112,795	79,389

EBI--Effective buying income. GCP--Gross county product. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

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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