

Research Update:

Hamilton Township, NJ Series 2025 GO Bonds Assigned 'AA' Rating; Outlook Is Stable

April 16, 2025

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to Hamilton Township, N.J.'s \$28.1 million series 2025 general obligation (GO) bonds.
- At the same time, S&P Global Ratings assigned its 'SP-1+' short-term rating to the township's \$21.6 million series 2025A bond anticipation notes (BANs).
- Finally, S&P Global Ratings affirmed its 'AA' long-term rating on the township's GO bonds outstanding, and its 'SP-1+' short-term rating on the township's previously issued BANs.
- The outlook, where applicable, is stable.

Rationale

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 proceeds from the 2025 GO bonds and BANs to refund notes outstanding that were originally issued to finance capital improvements.

Credit highlights

The rating reflects our view of Hamilton Township's steadily growing economy that anchors healthy operations and stable reserves. Ongoing property tax base development will likely provide additional revenue through building permits, payment in lieu of taxes (PILOT) agreements, and other sources. Stable operations are supported by management's conservative budgeting approach and continued revenue growth through higher property tax

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collections, and we expect the township will maintain reserves in the near term. 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 with an additional surplus expected for 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, on RatingsDirect.

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 a primarily residential community 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 online, which will increase 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 will 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 about 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 approximately 65%.

The township's fiscal 2024 annual financial statements reflect an estimated surplus of 1.0% of expenditures, largely due to additional property tax revenue collections from a tax rate adjustment for the year. The increase in the tax rate was used to cover rising costs associated with garbage collection and recycling, as well as higher health care costs. The township has raised its tax levy by approximately 4% annually on average in the past four years, supporting healthy operations during that time. In addition, the township maintains about \$6 million in banked levy cap from previous years, providing additional financial flexibility. The fiscal 2025 budget totals \$175.4 million, a 7.9% increase from the previous year. Overall, we expect the financial profile will remain stable.

Management

Hamilton's financial policies and practices guide its strong financial position and inform future budgets to maintain this position. Highlights of 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.

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- A formally adopted cash management plan governs investments with balances reported to the council quarterly.
- Although the township lacks formal debt or reserve policies, it maintains an informal reserve target that it recently increased to \$9 million from \$6 million, and the goal is to provide liquidity in case of emergency or unforeseen expenditures.

Debt and liabilities

Including this GO and BAN issuance, Hamilton will have about \$153 million of total direct debt, including about \$47 million in short-term debt. The township anticipates issuing about \$10 million-\$20 million in BANs later this year for the remainder of funding for the municipal building project. The township is using some funds on hand and a grant to pay down \$4.6 million in notes outstanding, and we expect the fiscal 2025 financials will reflect a one-time spike in current costs. While costs of debt and liabilities could increase with the additional debt, Hamilton plans to layer on debt after 2025 when debt service decreases, 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 plans have weaker funding resulting from the state's historical 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.

Hamilton Township (Mercer County), New Jersey--credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	2.46
Economy	1.0
Financial performance	2
Reserves and liquidity	2
Management	2.30
Debt and liabilities	4.50

Hamilton Township (Mercer County), New Jersey--key credit metrics

	Most recent	2023	2022	2021
Economy				
Real GCP per capita % of U.S.	--	172	174	169
County PCPI % of U.S.	--	120	121	120
Market value (\$000s)	--	11,767,612	10,504,163	9,530,775
Market value per capita (\$)	--	128,087	116,016	110,200
Top 10 taxpayers % of taxable value	--	4.7	4.8	4.7

Hamilton Township (Mercer County), New Jersey--key credit metrics

	Most recent	2023	2022	2021
Economy				
County unemployment rate (%)	--	3.7	3.3	5.5
Local median household EBI % of U.S.	--	119	115	114
Local per capita EBI % of U.S.	--	110	108	105
Local population	--	91,872	90,541	86,486
Financial performance				
Operating fund revenues (\$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 % of revenues	--	0.9	(1.6)	3.8
Operating result three-year average %	--	1.0	1.9	1.9
Reserves and liquidity				
Available reserves % of operating revenues	--	9.1	9.0	10.4
Available reserves (\$000s)	--	15,032	13,532	15,966
Debt and liabilities				
Debt service cost % of revenues	--	6.9	7.6	7.3
Net direct debt per capita (\$)	1,665	1,530	1,340	1,454
Net direct debt (\$000s)	152,951	140,603	121,293	125,724
Direct debt 10-year amortization (%)	67	38	--	--
Pension and OPEB cost % of revenues	--	15.0	12.0	13.0
NPLs per capita (\$)	--	1,688	1,246	918
Combined NPLs (\$000s)	--	155,051	112,795	79,389

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$21.646 mil BANs ser 2025A due 05/14/2026

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Ratings List

Short Term Rating	SP-1+
US\$28.092 mil GO bonds ser 2025 due 04/01/2042	
Long Term Rating	AA/Stable

Ratings Affirmed

Local Government

Hamilton Twp (Mercer Cnty), NJ Unlimited Tax General Obligation	AA/Stable
Hamilton Twp (Mercer Cnty), NJ Unlimited Tax General Obligation BAN	SP-1+

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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