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Summary:

Woodcliff Lake, New Jersey; General Obligation

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Credit Profile

US\$9.935 mil gen imp bnds ser 2019 dtd 10/01/2019 due 10/01/2030

Long Term Rating

AAA/Stable

New

Rationale

S&P Global Ratings assigned its 'AAA' long term rating to Woodcliff Lake, N.J.'s series 2019 general improvement general obligation (GO) bonds. The outlook is stable.

The bonds are secured by the borough's full-faith-and-GO credit pledge.

Proceeds from this issue will be used to refund existing bond anticipation notes (BANs) and finance the cost of several of the borough's capital projects.

The borough's location and participation in the regional Northern New Jersey–New York City employment base, which has contributed to its very strong economic metrics, and anchors the rating. Furthermore, the borough's conservative budgeting practices, which has allowed for overall positive fiscal performance, despite managing a sizable tax appeal coupled with limited debt levels have also been factored into the rating. We will continue to monitor the effects, if any, on how the tax appeal settlement and rising pension and other postemployment benefit (OPEB) contributions affect the borough.

Woodcliff Lake's GO bonds are eligible to be rated above the sovereign because we believe the borough can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. The borough's GO pledge is the primary source of security on the debt; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the county. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management, and there is no history of government intervention. Woodcliff Lake has considerable financial flexibility, as demonstrated by its very high fund general balance as a percent of expenditures, as well as very strong liquidity.

In our opinion, the rating reflects the borough's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with an operating surplus in the current fund in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 16% of operating expenditures;

- Very strong liquidity, with total government available cash at 52.8% of general fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.9% of expenditures and net direct debt that is 76.4% of current fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 100% of debt scheduled to be retired in 10 years, but a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Very strong economy

We consider Woodcliff Lake's economy very strong. The borough, with an estimated population of 5,942, is located in Bergen County in the New York-Newark-Jersey City, N.Y.-N.J.-Pa. MSA, which we consider to be broad and diverse. The borough has a projected per capita effective buying income of 223% of the national level and per capita market value of \$328,064. Overall, the borough's market value fell by 2.3% over the past year to \$1.9 billion in 2018. The county unemployment rate was 3.4% in 2018.

Woodcliff Lake encompasses almost four square miles in Bergen County. Although the borough is primarily residential, it maintains an ample commercial base with several headquarters within the borough boundaries including BMW North American Headquarters, Eisai Corporate offices, and Perillo Corporate Headquarters. Woodcliff Park's access to substantial employment opportunities throughout northern New Jersey, New York City, and Orange and Rockland counties in New York has led to the maintenance of below-average unemployment and above-average wealth and income levels.

The borough's property tax base is primarily residential, which accounts for 72%, but also has a large commercial presence that accounts for 27%. The tax base had seen significant growth driven by ongoing economic development in both the residential and commercial sectors. Assessed value has increased 7.5% over the past five years to \$2.09 billion. We consider the tax base moderately concentrated as the 10 leading taxpayers account for 21% of the tax base. Between 2006 and 2013, BMW filed tax appeals. In 2014, BMW and the borough reached a settlement in which the borough agreed to pay BMW \$3.95 million. However, that amount has not yet been paid due to other resident challenges. Nonetheless, the borough has set aside reserves to make the payment when required. The reserve currently stands at \$2.5 million. To combat further appeals, the borough began rolling assessments that will reassess 20% of the tax base annually.

Adequate management

We view the borough's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Highlights include the use of historical trend analysis for budget preparation looking back three to five years for revenues and expenditures. Budget to actuals are monitored monthly with reports provided to the governing body monthly. The borough does not maintain any long-term financial plan, but does update its three-year capital improvement plan annually during the budget process. Projects are identified, but not all funding sources. The borough's cash management plan follows state guidelines and provides reports to the council. The borough does not

maintain a formal debt issuance or reserve policy at this time. However, the borough maintains an informal policy to utilize approximately 70% of reserves in subsequent years' budget. The city is also taking necessary steps to address cyber security risks, participating in MEL/JIF Cyber Insurance Technology Standards.

Strong budgetary performance

Woodcliff Lake's budgetary performance is strong in our opinion. The borough had surplus operating results in the general fund of 1.9% of expenditures in fiscal 2018, and general fund operating results have been stable over the past three years, with a result of 0.6% in 2017 and 1.2% in 2016.

Woodcliff Lake's budgetary performance has historically been strong. Fiscal 2018 closed with its seventh consecutive operating surplus of \$235,000; increasing available reserves to over 15% of expenditures. Through continued conservative budgeting practices the borough has been able to, not only, increase available reserves to very strong levels, but also continue to add to their tax appeal reserve, which had been established to offset the outstanding BMW tax appeal settlement. Total repayment is estimated at \$3.9 million, in which the borough already has \$2.5 million reserved. Depending on timing of the payout, the borough may elect to finance the balance over a few years. Furthermore, historically, the borough has not had to levy up to the allowable state levy cap, and leaving remaining cap bank to expire; providing additional flexibility for future budgets, if needed. Property taxes, a stable revenue stream, accounted for 75% of total current fund revenues, followed by miscellaneous revenues at 20%. Property tax collections have been very strong; averaging nearly 100% over the past five years.

Fiscal 2019 revenues and expenditures are trending on target with budget and management is projecting to close with another surplus; keeping reserves at very strong levels. Management has no plans to draw down on reserves for either capital or operations in the near term.

Given the borough's historically conservative budgeting practices and several years of surpluses, we do not expect the borough's budgetary performance to weaken in the near term. However, if the borough were to use available reserves to bridge any structural imbalances or towards the BMW tax appeal, the rating, itself, may be pressured.

Very strong budgetary flexibility

Woodcliff Lake's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 16% of operating expenditures, or \$1.9 million.

Through continued positive financial operations, the borough continues to add to its available reserves; bringing the total available current fund balance to \$1.9 million or a now, very strong 15.8% of expenditures. With projections for a surplus in fiscal 2019, we do not expect the borough's budgetary flexibility to weaken. In addition, the borough maintains \$385,000 in reserves for accumulated absences, which insulates them from any unforeseen payouts.

Very strong liquidity

In our opinion, Woodcliff Lake's liquidity is very strong, with total government available cash at 52.8% of general fund expenditures and 6.7x governmental debt service in 2018. In our view, the borough has strong access to external liquidity if necessary.

We believe the borough has strong access to external liquidity, having issued GO bonds and notes over the past 20 years. Management has confirmed it has no contingent liquidity risks from financial instruments with payment

provisions that change upon the occurrence of certain events. In addition, the borough has no investments we deem aggressive. The borough has historically maintained very strong liquidity and we do not expect that to change in the near term.

Adequate debt and contingent liability profile

In our view, Woodcliff Lake's debt and contingent liability profile is adequate. Debt service is 7.9% of general fund expenditures, and net direct debt is 76.4% of general fund revenue. Overall net debt is low at 1.4% of market value, and 100% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. In our opinion, a credit weakness is Woodcliff Lake's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation.

This issue will be the borough's only outstanding debt having recently made the last debt service payment on their series 2009 GO bonds in June of 2019. The borough has historically maintained a 10-year amortization on each of their bond issuances; a credit strength, in our opinion. Woodcliff Lake is well below the state permitted borrowing limit and has no plans to issue any additional GO debt in the near term.

Woodcliff Lake's combined required pension and actual OPEB contributions totaled 9.7% of general fund expenditures in 2018. Of that amount, 5.8% represented required contributions to pension obligations, and 3.9% represented OPEB payments. The borough made its full annual required pension contribution in 2018. The funded ratio of the largest pension plan is 57.9%.

While the borough is currently managing pension costs and paying its full required portion of the actuarially determined contribution in 2018, we believe the borough has limited ability to control future growth of contributions and, with regard to OPEB obligation, has no mechanism for prefunding its share of the liabilities.

The borough participates in the cost-sharing multiple-employer Police and Firemen's Retirement System (PFRS) and Public Employees' Retirement System (PERS) pension plans. The reported plan fiduciary net position as a percentage of the total pension liability was 57.91% for PFRS and 40.45% for PERS as of July 1, 2018. While funding policies somewhat mitigate the risks for local governments of escalating contributions due to low plan funded ratios, the borough could face escalating pension costs should the state not follow its current schedule of increasing pension contributions. For more details and information on these risks, see our report "New Jersey Pension Funding: State Actions Reverberate At The Local Level," published Dec. 12, 2018.

In fiscal 2018, the borough made its portion of the actuarially determined contribution (ADC) of \$530,000 for PFRS and \$182,000 for PERS. The borough's proportionate share of the PERS net pension liability, as of Dec. 31, 2018, was \$3.8 million while the proportionate share of the PFRS net pension liability, as of Dec. 31, 2018, was \$7.8 million.

The borough also provides OPEB to eligible borough retirees through the State Health Benefits Program, a cost-sharing, multiple-employer defined benefit postemployment health care plan administered by the state. The net OPEB liability for the borough's OPEB as of Dec. 31, 2018, is \$9.08 million. These benefits are funded on a pay-as-you-go basis with no mechanism in place that allows for prefunding, limiting the borough's ability to plan for these rapidly escalating costs. In 2018, the borough contributed \$482,000 toward its OPEB obligations.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects Woodcliff Lake's affluent and growing property tax base, which supports very strong economic characteristics. The outlook also reflects the borough's very strong liquidity that has been consistently maintained coupled with strong budgetary performance and flexibility. Further stability is provided by Woodcliff Lake's limited capital needs, giving us comfort that the borough will maintain its currently low debt and contingent liability. We also expect that management will make the necessary steps appropriately monitor its tax appeals and avoid pressures on its finances. Therefore, we do not expect to change the rating within the outlook period. We could lower the rating should tax appeals or rising fixed costs, which include pension and OPEB contributions, pressure the budget and weaken budgetary performance, flexibility, and liquidity.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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