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Summary:

Carneys Point Township, New Jersey; General Obligation

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Credit Profile

US\$5.15 mil GO bnds ser 2017 dtd 04/17/2017 due 04/15/2029

Long Term Rating

AA-/Stable

New

Rationale

S&P Global Ratings assigned its 'AA-' rating and stable outlook to Carneys Point Township, N.J.'s series 2017 general obligation (GO) bonds.

Carneys Point's full faith, credit, and taxing power is pledged to paying principal and interest on its GO debt. The GO bonds are payable from ad valorem taxes levied on all taxable real property in the township without limitation on the rate or amount.

Bond proceeds will permanently finance existing bond anticipation notes (BANs) and fund various capital improvements.

The GO rating reflects the following credit characteristics, particularly the township's:

- Adequate 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;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2015 level of 19% of operating expenditures;
- Very strong liquidity, with total government available cash at 27.5% of total governmental fund expenditures and 3.2x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 8.6% of expenditures and net direct debt that is 68.1% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation, but rapid amortization, with 76.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Carneys Point's economy adequate. The township, with an estimated population of 7,810, is located in Salem County in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 94.8% of the national level and per capita market value of \$69,654. Overall, the township's market value fell by 4.6% over the past year to \$544 million in 2017. The county

unemployment rate was 7.1% in 2015.

Carneys Point is located in Salem County, approximately 30 miles south of Philadelphia and 70 miles west of Atlantic City on the coast of the Delaware River. The township is largely residential (about 61%) followed by commercial (18%) and then industrial (15%). The 10 leading taxpayers accounted for just 25% of assessed value in fiscal 2017.

Adequate management

We view the township'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.

Specifically, management looks back at five years of historical trends to project revenues and expenditures. The board receives budget-to-actual reports at least quarterly. Transfers are permitted between lines and the budget can be amended during last two months of fiscal year. As part of the budgeting process, Carneys Point updates and maintains a three-year capital improvement plan. The township has a formally adopted cash management plan and reports holdings and interest earnings to the board monthly. It does not have formalized reserve or debt management policies, and does not do formal long-term financial planning.

Adequate budgetary performance

Carneys Point's budgetary performance is adequate in our opinion. The township had operating surpluses of 4.2% of expenditures in the current fund and of 4.2% across all governmental funds in fiscal 2015. Our assessment accounts for our expectation that budgetary results could deteriorate somewhat from 2015 results in the near term.

As is common with many New Jersey municipalities, Carneys Point appropriates reserves to balance its budget. However, it has a history of replenishing those reserves during the year. In fiscal 2015, the township appropriated \$825,000 in reserves, which they regenerated in full due to conservative budgeting practices and strong tax collections. Property taxes, which we consider a stable source of revenue, accounted for about 64% of the township's fiscal 2015 revenues including pilot fees.

Fiscal 2016 unaudited results show a drawdown in reserves of \$242,000 due to tax appeals and unbudgeted increase in legal fees. However, the fiscal 2016 drawdown will weaken performance for the year.

Management reports that it plans to appropriate about \$900,000 in reserves in the fiscal 2017 budget. Conservative estimates for other revenue items have allowed management to replenish appropriated reserves before, and we expect this to continue and have break-even results for fiscal 2017.

Strong budgetary flexibility

Carneys Point's budgetary flexibility is strong, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2015 level of 19% of operating expenditures, or \$1.6 million.

According to fiscal 2016 unaudited results, reserves have decreased to \$1.3 million or strong at 14.2% of expenditures. The township has maintained reserves between 14% and 20% over the past four fiscal years. We understand that management does not expect a material change to current fund reserves at the end of fiscal 2017; therefore, we expect reserves to remain at least strong.

Very strong liquidity

In our opinion, Carneys Point's liquidity is very strong, with total government available cash at 27.5% of total governmental fund expenditures and 3.2x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

Further enhancing our view of Carneys Point's liquidity position is that it maintains strong access to external liquidity because it has issued GO bonds regularly during the past several years. We understand the township has no bank loans, direct-purchase debt, or any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. Carneys Point follows state investment guidelines, and we do not consider its investments aggressive since nearly all are in mutual funds. We expect the township's liquidity to remain very strong in the near term.

Very weak debt and contingent liability profile

In our view, Carneys Point's debt and contingent liability profile is very weak. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 68.1% of total governmental fund revenue. Approximately 76.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Following this issuance, the township will have about \$6 million in total direct debt outstanding. There are no major capital projects over the next two to three years.

In our opinion, a credit weakness is Carneys Point's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Carneys Point's combined required pension and actual OPEB contributions totaled 9.6% of total governmental fund expenditures in 2015. Of that amount, 5.8% represented required contributions to pension obligations, and 3.8% represented OPEB payments. The township made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 56.3%.

Carneys Point participates in the state administered pension plans, the Police and Firemen's Retirement System (PFRS) and the Public Employees' Retirement System (PERS). Both PFRS and PERS are considered by S&P Global Ratings to be funded below an adequate level with plan fiduciary net position as a percentage of the total pension liability, as defined in GASB Statement No. 68, equal to 52.8% for PFRS and 38.2% for PERS as of June 30, 2015.

Management funds OPEB on a pay-as-you-go basis, with no mechanism in place that allows for pre-funding. We expect the township's pension and OPEB costs to continue to increase.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Carneys Point's strong budgetary flexibility and very strong liquidity. The outlook also reflects our expectation that the town will likely maintain its strong budgetary flexibility over the outlook period. We believe the town's access to Philadelphia's board and diverse employment base further support the rating. Therefore, we do not expect to change the rating within the outlook's two-year period.

Downside scenario

If the township were to significantly draw on reserves without a plan to restore them to strong levels or experienced budgetary performance weakness, we could lower our rating.

Upside scenario

If Carney Point can further increase reserves while adopting more formal financial management policies and if local economic indicators were to improve, we could raise our rating.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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