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Ratings

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Summary:

Rahway Board of Education, New Jersey; School State Program

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Summary:

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Credit Profile		
US$38.714 mil sch bnds ser 2021 due 07/15/2041		
Long Term Rating	A+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New
Rahway Brd of Ed SCHSTPROG (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed
Rahway Brd of Ed SCHSTPR		
Long Term Rating	A+/Stable	Affirmed
Underlying Rating for Credit Program	A+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'A+' rating to Rahway Board of Education, N.J.'s series 2021 general obligation (GO) school bonds. The outlook is stable.

The board's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the bonds. The New Jersey Fund for the Support of Free Public Schools program provides additional security for the bonds. The program pledges a portion of a state fund's assets for a school district's debt service should it be unable to meet principal-and-interest payments.

Officials intend to use series 2021 bond proceeds to finance the costs of various capital improvements to the district's schools.

Credit overview

The rating reflects our opinion of the district's strong budgetary reserves, moderate debt, and stable local economy. The district is in Union County with direct access to New York City. The COVID-19 pandemic has not materially affected operations, with revenues remaining resilient, in large part due to property taxes accounting for nearly 60% of general fund revenues, and state aid staying level. With expectations of positive results in fiscal 2021, we think increasing state aid and federal stimulus received will support finances and provide additional funds for capital. We anticipate management will continue to make budgetary adjustments as necessary to maintain balanced operations and reserves to support the current rating level.

The rating reflects our opinion of the district's:

- Good median household and per capital effective buying incomes (EBIs) and a very strong market value per capita, based on access to employment in the New York-Newark-Jersey City metropolitan area;

- Stable financial performance in the general fund with another balanced year projected in fiscal 2021 with a strong total fund balance on a budgetary basis; and
- Moderate debt with no current additional debt plans.

Environmental, social, and governance factors

We have analyzed social and governance factors relative to the district's economy, management, financial measures, and debt and liability profile and have determined all are in line with our view of the sector standard.

Stable Outlook

Upside scenario

We could consider a higher rating if the local economic base grows, and the district were to increase GAAP reserves stronger levels. An additional consideration would be if management were to implement stronger policies and procedures in accordance with our Financial Management Assessment (FMA) methodology.

Downside scenario

If performance were to deteriorate and total fund balance levels were to decline, we could lower the rating.

Credit Opinion

Mature built-out residential property tax base with proximity to New York City

Rahway Board of Education serves a population of 29,114 and is coterminous with the city of Rahway, encompassing approximately four square miles in Union County, around 15 miles from New York City. The district consists of six schools and serves approximately 3,900 students.

Median household and per capita EBIs in the district are good compared with national figures. The $3.1 billion taxable market value is also strong on a per capita basis and has grown 22% in the last five years. Much of that growth has been the result of a strong real estate environment and new multifamily development.

The city is mature and largely residential with residential property accounting for more than 73% of the tax base, with commercial and industrial properties at 26%. We consider the tax base diverse as the ten leading taxpayers account for 17% of assessed value. We note, however, that Merck & Co. is the single largest taxpayer at 13%.

Overall per capita values remain very strong and in line with those of peers at this rating level. Benefiting the district is its commutable distance to New York City, providing residents with ample employment and economic opportunities. The county unemployment rate was 9.9% in 2020, increasing because of the stay-at-home orders. Unemployment has come down over the past few months as the economic recovery has taken hold. Strengthening of the macroeconomic environment is likely to also support continued growth in the tax base, which in the past has been modest. For more information on S&P Global Ratings' economic view, see "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.

Steady budgetary performance and improved total reserves, although unassigned reserves remain low compared to higher rated peers

The district has maintained balanced operations for the past few fiscal years except for self-funded capital projects which have led to some draws on its fund balance. Property taxes account 60% of general fund revenue and state aid 40%. The state aid environment has been stable and property tax collections did not suffer amid the pandemic. For the fiscal 2021 year, management anticipates stable performance being in line with the recent past, bolstered by the federal stimulus, which has provided budgetary relief.

State statutes constrain the district's unassigned fund balance to 2% of the budget, which we consider adequate. Due to this limit, management funds several general fund reserves, including subsequent-year expenditures, a maintenance reserve, and a capital reserve. For fiscal 2020, total general fund balance was what we consider a good 7.3% of expenditures on a generally accepted accounting principles basis, or about $5.6 million. Unassigned fund balance was a negative $1.5 million, which was low. This does not include delayed state aid payments, which have averaged about $3 million during the past three fiscal years. Total fund balance on a budgetary basis grows to $8.9 million, or, in our view, a strong 11.5% of expenditures when factoring in the delayed state aid payment.

The fiscal 2022 operating budget totals $77.2 million, an increase of 2.3% from 2021. The district is budgeting the use of $1.9 million of fund balance in the budget. Appropriating reserves in the budget is a common practice. The district is usually conservative in estimating revenue receipts, so generally, it never uses the full amount. We note that throughout the pandemic, management did well monitoring expenses and adjusting when necessary, preserving overall flexibility and liquidity and we anticipate operations will remain stable through fiscal 2022. The district may elect draw on capital reserves, lowering total fund balance levels. Management, however, does not envision fully depleting the account in any given year. The district has been maintaining total GAAP reserves between 6% and 7% over the past five years, and there is no expectation they will fall below those levels.

Standard financial management assessment (FMA), indicating the finance department maintains adequate policies in some, but not all, key areas.

Budgets reflect three years of historical trends. The school board receives monthly budget-to-actual performance reports. The district maintains an investment policy that adheres to state guidelines with monthly reports to the school board.

However, no formal policy exists on debt management. In addition, the district performs three-year budget forecasts and surplus projections. It targets the state limit of 2% for undesignated, unreserved fund balance reserves and strives to replenish appropriated reserves. The district also develops five-year capital-facilities and maintenance plans, in line with state requirements, which it updates periodically.

Moderate debt burden and limited debt plans

Following this issue, the district will have roughly $50.7 million in total direct debt. At 3% of market value, we consider overall net debt moderate, both as a percentage of market value, and on a per capita basis. Amortization of principal is average, with 46% of outstanding debt payable in ten years. Debt service carrying charges will remain level and account for approximately 4% of total governmental fund expenditures (excluding capital outlay), which is low. Notably, the district is expecting to receive 43% debt service aid on these bonds. While capital needs exist, the district does not have plans for additional debt.

Limited pension and other postemployment benefit (OPEB) costs due to on-behalf state payments

The state contributes on behalf of the district for a large majority of pension and OPEBs, so we consider budgetary pressure from pension expenses currently limited. However, we view the funding of both New Jersey Teachers' Pension & Annuity Fund (TPAF) and New Jersey Public Employees' Retirement System (PERS) as below adequate. District employees also participate in a state-administered OPEB plan, for which the state funds 100% of contributions on the district's behalf. If the state requires local TPAF or OPEB contributions, it could lead to budgetary stress for this district and others, but we view this scenario as unlikely during the next two years.

The district participates in:

- TPAF, a state-administered pension plan, which has a fiduciary net position, as a percentage of total pension liabilities, as defined in Governmental Accounting Standards Board Statement No. 67, equal to 24.6%; and
- PERS, a state-administered pension plan, which has a fiduciary net position of 42.9%.

The district net pension liability totals $27.4 million.

Rahway Board of Education, NJ -- Key Credit Metrics

	Characterization	Most recent	Historical information		
			2020	2019	2018
Economic indicators					
Population			29,572	30,084	29,442
Median household EBI % of U.S.	Strong		112	115	109
Per capita EBI % of U.S.	Good		106	105	97
Market value ($000)		3,180,210	2,922,453	2,965,790	2,781,351
Market value per capita ($)	Very strong	107,541	98,825	98,584	94,469
Top 10 taxpayers % of taxable value	Diverse		17.6	17.7	19.5
Financial indicators					
Total available reserves ($000)			(1,097)	(587)	115
Available reserves % of operating expenditures	Low		(1.4)	(0.8)	0.2
Total government cash % of governmental fund expenditures			9.9	2.6	3.7
Operating fund result % of expenditures			1.4	(0.9)	2.2
Financial Management Assessment	Standard				
Enrollment		4,134	3,901	3,899	3,899
Debt and long-term liabilities					
Overall net debt % of market value	Moderate	3.0	2.0	2.0	2.1
Overall net debt per capita ($)	Moderate	3,191	1,933	2,011	1,939
Debt service % of governmental fund noncapital expenditures	Low		3.1	3.0	3.0
Direct debt 10-year amortization (%)	Slower than average	46	100	91	84
Required pension contribution % of governmental fund expenditures			0.8	0.8	0.8
OPEB actual contribution % of governmental fund expenditures			0.0	0.0	0.0
Minimum funding progress, largest pension plan (%)			58.4	54.2	46.4

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

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020