

# RatingsDirect®

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**Summary:**

## East Hanover Township School District, New Jersey; General Obligation; School State Program

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## Summary:

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### Credit Profile

US\$12.013 mil sch bnds ser 2022 due 07/15/2041

*Long Term Rating* AA/Stable New

*Underlying Rating for Credit Program* AA/Stable New

East Hanover Twp Sch Dist sch bnds ser 2022 due 07/15/2041

*Long Term Rating* AA/Stable Rating Assigned

*Underlying Rating for Credit Program* AA/Stable Rating Assigned

East Hanover Twp Sch Dist sch dist rfdg bnds

*Long Term Rating* AA/Stable Affirmed

*Underlying Rating for Credit Program* AA/Stable Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to East Hanover Township School District (BOE), N.J.'s approximately \$12 million general obligation (GO) school bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the district's existing GO debt.
- The outlook is stable.

## Security

The district's full-faith-and-credit pledge secures the series 2022 bonds, and the New Jersey Fund for the Support of Free Public Schools program provides additional security. The program pledges a portion of a state fund's assets for a school district's debt service should the district be unable to meet principal-and-interest payments. The bond rating reflects our opinion of the district's underlying credit quality because the program rating reflects the currently lower appropriation state rating.

Officials will use series 2022 bond proceeds to fund various capital improvements at its three school facilities and board office.

## Credit overview

East Hanover Township Board of Education has an overall very stable credit profile. The affluent local economy has attracted young families in particular due to its attractive location outside of New York City and strong housing market over the past two years. The district has maintained stable budgetary performance over the past five years along with strong reserve levels, which it expects will continue based on preliminary fiscal 2022 estimates and current budget year performance.

The rating further reflects the district's:

- Mature local economy with a stable tax base and access to northern New Jersey and New York City for employment;
- Standard financial management environment;
- Positive budgetary performance trend that is expected to continue in the current fiscal year with very strong reserves; and
- Manageable debt profile with no near-term debt plans.

### **Environmental, social, and governance**

We view the state's governance of its pension plans and lack of a mechanism to prefund other postemployment benefits (OPEBs) as a weakness for New Jersey local governments and school districts. If the state were to shift costs to the school districts it could present a pressure in the future. We assessed the district's environmental and social risks relative to its economy, management, financial measures, and debt and liability profile, and determined that they are neutral in our credit rating analysis.

## **Outlook**

The stable outlook reflects the district's solid and consistent financial performance, which we expect will continue in the current and upcoming fiscal years. The district's very strong tax base and income levels provide further stability to the rating.

### **Downside scenario**

We could consider a negative rating action if the district's financial performance were to weaken, leading to a material drawdown in reserves with no plans to replenish.

### **Upside scenario**

We could consider a positive rating action if, all else being equal, the district's income indicators were to strengthen to levels commensurate with higher-rated peers.

## **Credit Opinion**

### **Mature local economy with additional residential development contributing to a growing tax base**

East Hanover Township BOE is located in Morris County, approximately 25 miles west of New York City. The township is a residential and commercial community, and its location along Interstate 280 and Interstate 287 provides residents with access to diverse employment bases in both northern New Jersey and New York City. One of the district's largest taxpayers, Mondelez Global, moved out of its building in December 2020 and the land is being developed with approximately 500 units comprised of both condominiums and townhomes. Management is expecting the assessed valuation on the residential developments to be comparable with prior assessments for Mondelez, therefore did not have concerns about the shift among its major taxpayers.

The district operates three schools to educate students in grades kindergarten through eight. Enrollment has typically fluctuated between 2% to 4% over the past five years, with enrollment for the 2023 school year landing at 957. Officials

anticipate enrollment levels will increase by about 2% over the next two years and that a more significant increase from completion of the condos would not occur until fiscal 2025 at the earliest.

### **Standard financial management environment**

Highlights of the district's management practices include:

- Budget-to-actuals monitored regularly, with reports provided to the board monthly;
- A five-year long-range facilities plan, as required by the state, which is updated as needed and was most recently updated in coordination with the referendum; and
- An adopted investment policy that conforms to state guidelines.

The district lacks a formal multi-year financial plan, fund balance policy, or debt management policy, but adheres to applicable state statutes.

### **Trend of positive budgetary performance supporting strong reserve levels**

The district's financial performance has been solid over the past few years, generating surpluses in four of the past five fiscal years. Its revenue profile is also very stable as property taxes contribute 81% of general fund revenue while state aid is about 19%. Based on preliminary estimates, management expects fiscal 2022 ended with a strong surplus. We do not anticipate a change in the district's financial performance its strong operational trends that we expect will be maintained in the current and upcoming fiscal year.

The strong financial performance has supported consistent reserve levels; total reserves on a budgetary basis were \$6.6 million in fiscal 2021, or 28% of expenditures. We consider total fund balance on a budgetary basis the relevant measure of budgetary flexibility because of state limitations on unassigned fund balance--capped at 2% and increased to 4% on a temporary basis due to COVID-19--and the state's delay of state aid payments, included on a budgetary basis but excluded from generally accepted accounting principles. Given the 2% limitation on the unassigned fund balance, management also maintains capital reserve (\$2.6 million) and maintenance reserve (\$600,000) accounts to provide additional flexibility.

### **Manageable debt profile with limited additional capital needs**

After this issuance, the district will have approximately \$13.7 million in debt outstanding inclusive of its capital lease. Officials do not expect to issue additional debt over the near term, as the current issuance addresses most of its capital needs. We do not expect a material change in the district's debt profile.

### **Limited pension and other postemployment benefits costs due to on-behalf state payments**

New Jersey contributes on behalf of the board for a large majority of pension and OPEB, so budgetary pressure from pension expenses are currently limited. However, we view the funding of New Jersey Teachers' Pension & Annuity Fund (NJTPAF) and New Jersey Public Employees' Retirement System (NJPERS) 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 were to require a local contribution for NJTPAF or OPEB, it could lead to budgetary stress for this and other school districts; however, we view this scenario as unlikely during the next two years.

The district participates in the following state-administered pension plans:

*Summary: East Hanover Township School District, New Jersey; General Obligation; School State Program*

- NJTPAF, which has a fiduciary net position, as a percent of total pension liabilities as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, equal to 35.5%; and
- NJPERS, which has a fiduciary net position of 51.5%.

<b>East Hanover Township School District Key Credit Metrics</b>					
	<b>Characterization</b>	<b>Most recent</b>	<b>Historical information</b>		
			<b>2021</b>	<b>2020</b>	<b>2019</b>
<b>Economic indicators</b>					
Population			10,865	10,918	11,078
Median household EBI % of U.S.	Very strong		181	184	175
Per capita EBI % of U.S.	Very strong		167	168	167
Market value (\$000)		3,445,280	3,427,501	3,270,359	3,368,787
Market value per capita (\$)	Extremely strong	317,099	315,463	299,538	304,097
Top 10 taxpayers % of taxable value	Diverse	15.1	24.6	24.5	24.5
<b>Financial indicators</b>					
Total available reserves (\$000)			1,286	324	423
Available reserves % of operating expenditures	Good		5.4	1.4	1.8
Total government cash % of governmental fund expenditures			25.2	16.1	15.4
Operating fund result % of expenditures			7.7	1.7	-0.4
Financial Management Assessment	Standard				
Enrollment		957	895	922	900
<b>Debt and long-term liabilities</b>					
Overall net debt % of market value	Low	2.0	1.6	1.6	1.6
Overall net debt per capita (\$)	High	6,420	5,009	4,710	4,757
Debt service % of governmental fund noncapital expenditures	Low		3.5	3.4	3.4
Direct debt 10-year amortization (%)	Slower than average	45	89	89	89
Required pension contribution % of governmental fund expenditures			0.9	0.8	0.8
OPEB actual contribution % of governmental fund expenditures			0.0	0.0	0.0
Minimum funding progress, largest pension plan (%)			72.7	58.4	54.2

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

## Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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

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