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## Summary:

# Mendham Township, New Jersey; General Obligation

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## Summary:

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### Credit Profile

US\$7.655 mil GO rfdg bnds ser 2015

*Long Term Rating*

AAA/Stable

New

Mendham Twp gen imp bnds

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Mendham Township, N.J.'s series 2015 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the township's previously issued GO bonds. The outlook is stable.

The township will use the \$7.7 million bond proceeds to refund its series 2002 and 2009 GO bonds and its 2006 USDA loan. Mendham's full faith and credit secure the debt.

Mendham's GO bonds are eligible to be rated above the sovereign because we believe Mendham can maintain better credit characteristics than the U.S. federal government 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 have moderate sensitivity to country risk. The township'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 city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention.

The 'AAA' rating reflects our view of Mendham'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 (FMA) methodology;
- Strong budgetary performance, with balanced operating results in the current fund in fiscal 2014;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 9.3% of operating expenditures;
- Very strong liquidity, with total government available cash at 19.8% of current fund expenditures and 134.7% of debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.7% of expenditures and net direct debt that is 167.3% of current fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 80.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Very strong economy**

We consider Mendham's economy very strong. The township, with an estimated population of 5,953, is located in Morris County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 269% of the national level, which we view as extremely high and a positive credit factor and per capita market value of \$326,483. Overall, the township's market value fell by 1.1% over the past year to \$1.9 billion in 2015. The county unemployment rate was 4.9% in 2014, lower than state and national averages.

The township encompasses 18 square miles, 40 miles west of New York City and 20 miles west of Newark. The township is a very affluent residential community, with 92.3% of assessed value (AV) generated from residential property. Residents are served by rail access into New York City and Newark by New Jersey Transit in neighboring communities. Market value and AV have been fairly stable since 2010. Median home price exceeded \$771,000 in 2014, more than 400% of the national figure.

### **Adequate management**

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

Management bases its revenue and expenditure assumptions on the previous fiscal year's performance as well as state restrictions on budgetary increases. Budget-to-actual reports are reviewed monthly by the board and finance committee. The township maintains a six-year capital improvement plan that is updated annually as part of the budgetary process. The township does not maintain formal investment or debt management policies aside from state guidelines. No formal reserve policy or target is maintained, although management maintains a working policy to regenerate appropriated fund balance.

### **Strong budgetary performance**

Mendham's budgetary performance is strong in our opinion. The township had balanced operating results in the current fund of negative 0.4% of expenditures in fiscal 2014. Current fund operating results of the township have been stable over the last three years, with a result of negative 0.5% in 2013 and a result of 1.3% in 2012.

The township realized slight drawdowns on its current fund balance of \$34,000 in 2014 and \$42,000 in 2013. Management attributes the drawdowns to an effort to fund capital outlays from current resources as opposed to issuing debt. However, officials report a new short-term strategy to maintain and boost excess surplus levels for contingency purposes.

The township does support two very small sewer utilities whose operating fund balances have declined by \$16,776 during the past two years. The combined utility operating fund balance was equal to 3.8% of combined expenditures in 2014. The current fund is required to subsidize any operating in costs for these utilities. To balance recurring revenue and expenditures, management has undergone a process to increase rates, which are expected to take effect at the start of fiscal 2016.

In the 2015 budget the township appropriated \$790,000 of its current fund balance, or 8.5% of budgeted expenditures, but as in prior years officials anticipate to regenerate the fund balance as a result of conservative budgeting practices.

Reflecting this is the inclusion of the reserve for uncollected taxes based on a collection rate of 97.27%. As the average collection rate during the past five years was 99.23%, the budgeted reserve, equal to more than \$1.0 million, adds a cushion for budgetary performance. Property taxes, including expected delinquent receipts, account for 84.6% of budgeted 2015 revenue. Given management's anticipation that it will regenerate reserves in 2015 and 2016, we anticipate that budgetary performance will remain strong.

### **Strong budgetary flexibility**

Mendham's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 of 9.3% of operating expenditures, or \$791,000.

Given management's anticipation for a regeneration of fund balance in 2015 and 2016, we anticipate that the township's budgetary flexibility will remain strong over the two-year outlook horizon. However, if draws on the current persist and result in the balance falling to 8% of expenditures or less, we could consider reclassifying budgetary flexibility as "adequate."

### **Very strong liquidity**

In our opinion, Mendham's liquidity is very strong, with total government available cash at 19.8% of current fund expenditures and 134.7% of debt service in 2014. In our view, the township has strong access to external liquidity if necessary.

The township's strong access to external liquidity is demonstrated by its access to the capital markets for bond anticipation note and long-term GO debt within the past 10 years. The township does not engage in the aggressive use of investments. In addition, it is not exposed to variable-rate or privately placed debt. Given management's expectations for balanced operating results for 2015, we anticipate that the liquidity position will remain very strong.

### **Strong debt and contingent liability profile**

In our view, Mendham's debt and contingent liability profile is strong. Current fund debt service is 14.7% of total current fund expenditures, and net direct debt is 167.3% of current fund revenue. Overall net debt is low at 1.6% of market value, and approximately 80.4% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The township has not identified new debt issuances over the next two years. Officials report that the township is attempting to minimize its debt burden by continuing to fund capital outlays from recurring resources.

Mendham's pension contributions totaled 5.2% of current fund expenditures in 2014. The township made its full annual required pension contribution in 2014.

The township participates in the New Jersey Public Employee's Retirement System and Police and Fireman's Retirement System (PFRS). The largest plan in which the township participates is PFRS, which is 76.7% funded. The township does not maintain an other postemployment benefit (OPEB) plan. Given the limited pension and OPEB carrying charge, we do not believe that the township's retirement obligations create undue budgetary pressures.

## **Strong institutional framework**

The institutional framework score for New Jersey municipalities is strong.

## **Outlook**

The stable outlook reflects our view of Mendham's very strong economy defined by extremely high relative income and metrics and access to the New York City MSA. The outlook further reflects our view of the township's strong budgetary performance and flexibility and our anticipation for those factors to remain strong. Given these factors, we do not anticipate changing the rating over the two-year outlook horizon.

## **Downside scenario**

If the township increases the size of its draws on its current fund balance, resulting in deteriorations in its budgetary flexibility and liquidity combined with deterioration in the debt and liability profile, we could consider lowering the rating.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

### **Related Research**

Institutional Framework Overview: New Jersey Local Governments

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