STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Hamilton Township (Mercer County), New Jersey; General Obligation

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Summary:

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Credit Profile		
US$3.2 mil swr util rfdg bnds ser 2015		
Long Term Rating	AA/Stable	New
Hamilton Twp (Mercer Cnty) GO		
Long Term Rating	AA/Stable	Affirmed
Hamilton Twp (Mercer Cnty) GO gen imp rfdg bnds & swr util rfdg bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Hamilton Township (Mercer County), N.J.'s series 2015 sewer utility refunding bonds and affirmed its 'AA' long-term rating on the township's existing general obligation (GO) debt. The outlook is stable.

The town's full faith and credit pledge secures the bonds. We understand that officials will use the series 2015 proceeds to refund a portion of the town's outstanding series 2005 sewer utility bonds. There is no extension of maturity and savings are taken over the life of the bonds.

The rating reflects our assessment of the following factors for Hamilton, specifically what we consider its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" financial policies;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2013, which closed with an operating deficit in the general fund;
- Adequate budgetary flexibility, with an available fund balance that we expect will improve in the near term from its fiscal 2013 level of 3.8% of operating expenditures;
- Very strong liquidity, with total government available cash of 15.8% of general fund expenditures and 2.9x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 5.4% and net direct debt that is 88.0% of general fund revenue, and low overall net debt at less than 3% of market value and rapid amortization with 67.1% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider Hamilton's economy strong. Hamilton, with an estimated population of 88,919, is in Mercer County in the Trenton MSA, which we consider broad and diverse. The township has a projected per capita effective buying income of 124% of the U.S. level and per capita market value of $97,405. Overall, its market value grew by 2.8% over the past year to $8.7 billion in 2014. The county unemployment rate was 6.7% in 2013.

The town is just north of Trenton and the Hamilton Transit Center provides direct access to New York City via New Jersey Transit's Northeast Corridor and is about 1 hour from Philadelphia. The township maintains a strong, diverse tax base as the top ten taxpayers represent only 4.3% of assessed values. However, we note that township will be undergoing revaluation effective for 2016 which has not been completed in some decades and should result in assessments more closely aligning to market values.

Strong management

We view the Hamilton's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include monthly monitoring of budget-to-actuals, budgetary projections beyond the current year, and a six-year capital improvement plan.

Adequate budgetary performance

Hamilton's budgetary performance is adequate, in our opinion, with deficit operating results in the current fund of negative 1.8% of expenditures in fiscal 2013. Our assessment accounts for the fact that we expect budgetary results could improve from 2013 results in the near term. The current fund is the township's only governmental fund.

For 2014, the township annual financial statement filed with the state shows a 2.1% surplus or $2 million, better than its budgeted use of reserves. For 2015, the township continues to appropriate reserves as it has historically done and expects an operational surplus. During the year, it has also established a snow removal trust and an insurance trust, each funded at $500,000.

Adequate budgetary flexibility

Hamilton's budgetary flexibility is adequate, in our view, with an available fund balance that we expect will improve in the near term from its fiscal 2013 level of 3.8%, or $3.8 million.

As expected, the township drew down reserves in 2013, but based on unaudited 2014 financial statements, reserves should improve. The drawdown was related to paying for costs associated with the township's property revaluation. We also note the township does not levy up to its full 2% capacity and has additional levy capacity of about $4.4 million expected for 2016 which it does not plan to use. We note the township has risk from tax appeals related to its upcoming revaluation for 2016. However, any negative rulings would result in reduction of future tax liabilities and not one-time cash payouts. As a result, we do not expect significant negative effects on the budget.

Very strong liquidity

In our opinion, Hamilton's liquidity is very strong, with total government available cash of 15.8% of general fund expenditures and 2.9x governmental debt service in 2013. In our view, Hamilton has strong access to external liquidity if necessary.

Adequate debt and contingent liability profile

In our view, Hamilton's debt and contingent liability profile is adequate. Total governmental fund debt service is 5.4%

of general fund expenditures, and net direct debt is 88.0% of general fund revenue. Overall net debt is low at 3.0% of market value and approximately 67.1% of the direct debt is scheduled to be repaid within 10 years, which are positive credit factors, in our view. Conservatively, we have estimated that the township's BANs will be taken out at 50% over ten years.

In our opinion, a credit weakness is Hamilton's large pension and OPEB liability, without a plan in place that we think will sufficiently address the obligation. Hamilton's combined pension and OPEB contributions totaled 10.1% of general fund expenditures in 2012. Of that amount, 7.0% represented contributions to pension obligations and 3.2% represented OPEB payments. The township made 100% of its annual required pension contribution in 2013. The pension funded ratio is 77.9%.

The township participates in two state-administered defined-benefit plans: the Public Employees Retirement System (PERS) (74.5% funded in 2012) and the Police and Firemen's Retirement System (PFRS) (77.6% funded in 2012). For each plan, the town has contributed 100% of its annual required contribution (ARC). The township provides OPEBs for various employees in the form of health care insurance; the plan is funded on a pay-as-you-go basis. Cumulatively, the town contributed $3.1 million in 2013, or 12% of its ARC. The unfunded OPEB liability was about $290 million as of Dec. 31, 2012. Combined, pension and OPEB costs were about 10% of total governmental expenditures, a level we consider high. Given the size of the OPEB liability relative to budget and elevated pension and OPEB carrying charges, these costs are expected to increase in the future, creating fiscal pressure.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Hamilton's current operating performance, strong economy, and stable tax base. We could see upward rating movement should the township rebuild its reserves, improve budgetary performance, and mitigate its long-term liabilities. However, an elevated pension and OPEB carrying charge will create continued fiscal pressure.

While unlikely, should the township significantly decrease its reserves and operating performance worsen, we could lower the rating. We believe the township's access to diverse regional employment centers and strong wealth and incomes are stabilizing factors. Therefore, we do not expect to change the rating within the outlook's two-year period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments

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