

RatingsDirect®

Summary:

Hamilton, New Jersey; General Obligation; Note

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Credit Profile

US\$46.438 mil gen imp bnds ser 2017 dtd 05/24/2017 due 05/15/2047		
<i>Long Term Rating</i>	AA/Stable	New
US\$24.737 mil GO BANs ser 2017E dtd 05/15/2017 due 05/23/2018		
<i>Short Term Rating</i>	SP-1+	New
Hamilton Twp (Mercer Cnty) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hamilton Twp (Mercer Cnty) GO gen imp rfdg bnds & swr util rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Hamilton Twp (Mercer Cnty) GO BANs ser 2017E dtd 05/15/2017 due 05/23/2018		
<i>Short Term Rating</i>	SP-1+	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating, and stable outlook, to Hamilton, N.J.'s series 2017A general improvement and series 2017B sewer utility improvement general obligation (GO) bonds; and assigned its 'SP-1+' short-term rating to Hamilton's series 2017A, 2017B, 2017C, 2017D, and 2017E bond anticipation notes (BANs). At the same time, S&P Global Ratings affirmed its 'AA' rating, and stable outlook, on the township's GO debt outstanding.

Hamilton's full-faith-and-credit pledge and its agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds, BANs, and existing GO debt. The short-term BAN rating reflects the township's high investment-grade long-term rating, and low market risk profile. In our view, and pursuant to our BAN criteria, we have assessed Hamilton's market risk as low due to its strong market access, information availability, and take-out authorization.

Officials intend to use bond proceeds to permanently finance BANs outstanding used for various capital needs. The 2017 BANs will roll over previously issued notes that funded various capital projects and a revaluation.

The rating reflects our opinion of the township's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund in fiscal 2015;
- Adequate budgetary flexibility, with an available fund balance in fiscal 2015 of 7.4% of operating expenditures;
- Very strong liquidity, with total government available cash at 16.1% of general fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 129.0% of general fund revenue, and a large pension and other postemployment benefit (OPEB)

obligation and the lack of a plan to sufficiently address it, but rapid amortization, with 66.2% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Strong economy

We consider Hamilton's economy strong. The township, with an estimated population of 88,859, is located in Mercer County in the Trenton, N.J., MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 119% of the national level and per capita market value of \$97,388. Overall, the township's market value grew by 1.8% over the past year to \$8.7 billion in 2016. The county unemployment rate was 4.8% in 2015.

Hamilton is just north of Trenton, about 1 hour from Philadelphia. The Hamilton Transit Center provides direct access to New York City via New Jersey Transit's Northeast Corridor Rail Line. The township maintains a strong, diverse tax base as the top ten taxpayers represent only 4.3% of assessed values. Hamilton recently completed a revaluation effective for fiscal 2016, bringing assessments more in line with market values. The township also has a few development projects in the works, including Mill One, a six-acre mixed use facility; Hamilton Point Center, with several retail spaces; a FedEx distribution center, slated to bring 400 new jobs to Hamilton; and a new assisted living facility, that we expect will create 440 jobs in the township. We expect these projects to result in modest increases to the tax base.

Strong management

We view the township'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 regularly.

Specifically, management builds budgets with a three-year historical look-back and two-year projection. Officials monitor the budget closely, with budget-to-actual reports going to the township council monthly. Transfers and emergency appropriations allow for budget amendments, in accordance with state guidelines. Hamilton maintains a financial forecast for major revenues and expenditures for the current year plus next two budgets, with two prior-year actuals for reference. It updates this annually. Management updates a six-year rolling capital improvement plan annually and includes it in the budget. It details project costs and sources for all years, although in greater detail for the current year. A formally adopted cash management plan governs investments, with interest earnings reported to the council monthly. While the township has no formalized debt or reserve policies, it does maintain an informal reserve target to keep at least \$4 million-\$5 million or 5% of expenditures on hand to provide liquidity in case of emergency or unforeseen expenditures.

Strong budgetary performance

Hamilton's budgetary performance is strong in our opinion. The township had slight surplus operating results in the general fund of 1.2% of expenditures in fiscal 2015.

Management attributes the fiscal 2015 surplus to conservative revenue projections, which allows one-time and better-than-budgeted revenues to go toward maintaining and increasing reserves. Property taxes, which we consider a stable source of revenue, account for about 67% of Hamilton's current fund revenues.

Fiscal 2016 unaudited results show the township achieving surplus results again. The \$4.9 million of appropriated reserves were regenerated, and an additional \$734,000 will be added to fund balances. The preliminary fiscal 2017 uses \$4.5 million in reserves to balance the budget. In determining the amount of reserves to use in the budget, management assesses how much it plans to recoup from cancellations of prior-year encumbrances, as well as if miscellaneous revenues will be higher than budgeted, given that New Jersey law prohibits municipalities from anticipating more miscellaneous revenues than realized in the prior year. Given this, we expect that Hamilton will continue achieving stable operating results.

Adequate budgetary flexibility

Hamilton's budgetary flexibility is adequate, in our view, with an available fund balance in fiscal 2015 of 7.4% of operating expenditures, or \$7.2 million.

Hamilton's maintenance of adequate reserves is supported by a fund balance policy to maintain reserves at 5% of operations. As such, we expect at least adequate levels, despite the use of fund balances in balancing the budget. This practice is common in New Jersey, but Hamilton has a history of using an amount of reserves in the budget it believes it will regenerate, keeping reserves stable. Unaudited fiscal 2016 results show reserves increasing to almost \$8 million, or just over 8% of expenditures. If the township is able to sustain this improvement to reserves in fiscal 2017, our view of its reserves could improve.

Very strong liquidity

In our opinion, Hamilton's liquidity is very strong, with total government available cash at 16.1% of general fund expenditures and 2.6x governmental debt service in 2015. In our view, the township has strong access to external liquidity if necessary.

Hamilton does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. The township maintains what we view as strong access to external liquidity, with long-term GO bond issuances within the past 15 years.

Very weak debt and contingent liability profile

In our view, Hamilton's debt and contingent liability profile is very weak. Debt service is 6.3% of general fund expenditures, and net direct debt is 129.0% of general fund revenue. Approximately 66.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The township could issue up to \$28 million in additional debt over the next two years. We do not expect this to materially affect our view of its debt profile. We have taken into account projected plans for repayment of BANs. Our view of Hamilton's debt profile could weaken should debt issuances cause the township's 10-year amortization schedule fall below 65%.

In our opinion, a credit weakness is Hamilton's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. While the township is managing these costs, there are limited mechanisms in place to allow it to plan for these future liabilities. Hamilton's combined required pension and actual OPEB contributions totaled 13.5% of general fund expenditures in 2015. Of that amount, 7.7% represented required contributions to pension obligations, and 5.7% represented OPEB payments. The township made its full annual

required pension contribution in 2015. The funded ratio of the largest pension plan is 52.8%.

Hamilton participates in two cost-sharing multiple-employer pension plans, the Police and Firemen's Retirement System (PFRS) and the Public Employees' Retirement System (PERS). S&P Global Ratings considers both PFRS and PERS funded below an adequate level, with the plan fiduciary net position as a percentage of the total pension liability, as defined in GASB Statement No. 67, equal to 48.55% for PFRS and 31.20% for PERS as of June 30, 2016.

The township also provides its retirees with health benefits, through its group insurance plan. As of Dec. 31, 2015, Hamilton reported an unfunded actuarial accrued liability of about \$116 million. There is no mechanism that allows for prefunding this liability, limiting the township's ability to plan for these costs.

For the past three fiscal years, Hamilton's combined pension and OPEB costs have exceeded 10% of current fund expenditures. Given the changes to the administered plans' discount rate and weak market returns, we expect that the township's pension costs will continue to increase as a result.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Hamilton's stable operating performance supported by strong management. The strong local economy and access to broad and diverse metropolitan areas provides further stability. As such, we do not expect to raise or lower the rating within our two-year outlook horizon.

Upside scenario

If the township is able to improve its debt and contingent liability profile while improving economic indicators and flexibility, we could raise the rating.

Downside scenario

If pressures from long-term liabilities pressure budgetary performance and result in reserve reductions to levels no longer commensurate with those of peers, we could lower the rating.

Related Research

- 2016 Update Of Institutional Framework For U.S. Local Governments
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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