

RatingsDirect®

Summary:

Secaucus, New Jersey; General Obligation

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US\$12.585 mil GO bnds ser 2018 due 05/01/2030

Long Term Rating AA/Stable New

Secaucus GO

Long Term Rating AA/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating, and stable outlook, to the Town of Secaucus, N.J.'s general improvement general obligation (GO) bonds.

At the same time, S&P Global Ratings affirmed its 'AA' rating, with a stable outlook, on the town's GO debt outstanding.

The bonds are secured by the town's full faith and credit and resources pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount. Officials intend to use bond proceeds to permanently finance previously issued GO notes for the purpose of funding various capital improvement projects.

The rating reflects our view of the town'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;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2016, which closed with an operating surplus in the current fund;
- Strong budgetary flexibility, with an available fund balance that we expect will decrease in the near term from its fiscal 2016 level of 17% of operating expenditures;
- Very strong liquidity, with total government available cash at 25.8% of current fund expenditures and 3.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 6.6% of expenditures and net direct debt that is 84.4% of current fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 79.0% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Very strong economy

We consider Secaucus' economy very strong. The town, with an estimated population of 17,893, is located in Hudson County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The town has a projected per capita effective buying income of 157% of the national level and per capita market value of \$270,595. Overall, the town's market value grew by 4.9% in 2016 to \$4.8 billion in 2017. The county unemployment rate was 4.7% in 2016.

Secaucus is located about 15 minutes by car from New York City and the local economy benefits from employment opportunities in New York City and in northern New Jersey. Residential, commercial, and industrial property each comprise nearly one-third of the town's land use. Secaucus is well served by highway and train transportation, with Route 3 leading to the Lincoln Tunnel into New York City, routes 1 and 9 leading to the Holland Tunnel into New York City, and a spur onto the New Jersey Turnpike (Interstate 95). The town is diverse, with the 10 leading taxpayers accounting for an estimated 14.1% of assessed value.

Adequate management

We view the town'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 has historically been conservative in its revenue and expenditure projections, which are based on historical analysis. Management presents budget-to-actual financial reports to its council on a quarterly basis. The town maintains a cash management plan and investment performance and holdings are reported to council quarterly. Management maintains a five-year capital improvement plan that is updated annually and is included in the budget. In addition, Secaucus maintains budget forecasts and surplus projections that extend out two years. The town does not maintain a formal debt management policy nor does it maintain a formalized reserve policy.

Adequate budgetary performance

Secaucus' budgetary performance is adequate in our opinion. The town had surplus operating results in the current fund of 6.3% of expenditures in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

Secaucus closed fiscal 2016 with a \$3.6 million surplus due primarily to an increase in assessed value of nearly \$100 million in addition to conservative budgeting. As a result, the town increased current fund reserves to \$9.1 million.

In fiscal 2017, the town budgeted the use of \$5.6 million of reserves for the year, which is consistent with its historical budgeting practices. It is management's practice to use at least two-thirds of current fund reserves in its budget and to regenerate much if not all of the amount appropriated. For fiscal 2017, management indicates that it expects to use about \$2.5 million of reserves, primarily for some one-time expenditures, which reduces the current fund to \$6.6 million.

The preliminary budget for fiscal 2018 is similar to the prior year. Preliminary fiscal 2018 current fund expenditures total \$56.0 million, a 1.1% relative to the previous year. In addition, the town expects to use \$5 million of reserves to balance the budget. However, management indicates it expects to end the year with breakeven operations.

We understand most of Secaucus is within a tax-sharing district operated by New Jersey Meadowlands Commission,

under which the town pays a portion of property tax revenue, which the commission will share with other towns in the district. Secaucus' annual payment fluctuates based on a formula. However, we believe the town's revenue profile is stable with property taxes generating nearly three-quarters of current fund revenue. Current tax collections have remained more than 99% recently. In addition, the town receives about \$1.7 million annually in hotel tax revenue from the nearly 2,900 hotel rooms within its borders; it also receives parking revenue from a 1,000-space parking lot near the train station.

Strong budgetary flexibility

Secaucus' budgetary flexibility is strong, in our view, with an available fund balance that we expect could decrease in the near term from its fiscal 2016 level of 17% of operating expenditures, or \$9.1 million.

At the end of fiscal 2017, management estimates an ending available current fund balance of \$6.6 million, or 12% of expenditures, a level we consider strong.

According to the preliminary budget for fiscal 2018, Secaucus expects to budget the use of \$5 million of reserves. However, management indicates that it expects to end the year with close to breakeven operations given its conservative budget assumptions. As a result, we do not expect a material change to reserves at fiscal year-end.

Very strong liquidity

In our opinion, Secaucus' liquidity is very strong, with total government available cash at 25.8% of current fund expenditures and 3.9x governmental debt service in 2016. In our view, the town has strong access to external liquidity if necessary.

We understand Secaucus does not report any direct-purchase debt or contingent liabilities with tender options or immediate acceleration risk. We understand that management does not expect a material change in liquidity at the end of fiscal years 2017 or 2018. As a result, we expect liquidity to remain very strong. Cash and equivalents are maintained primarily in bank deposits.

Strong debt and contingent liability profile

In our view, Secaucus' debt and contingent liability profile is strong. Debt service is 6.6% of current fund expenditures, and net direct debt is 84.4% of current fund revenue. Overall net debt is low at 2.6% of market value, and approximately 79.0% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

We understand the town's capital needs consist mostly of \$3 million-\$4 million in annual maintenance projects and road improvements that will be funded primarily with pay-as-you-go sources according to management.

In our opinion, a credit weakness is Secaucus' large pension and OPEB obligation. Secaucus' combined required pension and actual OPEB contributions totaled 7.9% of current fund expenditures in 2016. Of that amount, 5.0% represented required contributions to pension obligations and 2.9% represented OPEB payments. The town made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 48.5%.

While Secaucus is currently managing these costs, we believe it has a limited ability to control future liability growth; however, if the town is unable to manage future increases in pension contributions, our view of its debt-and-liability

profile could weaken.

The town participates in the cost-sharing, multiemployer New Jersey Police & Firemen's Retirement System (PFRS) and New Jersey Public Employees' Retirement System (PERS) pension plans, as defined by the Governmental Accounting Standards Board (GASB). Both PFRS and PERS are, in our view, significantly underfunded. The plans' fiduciary net positions, as a percent of total pension liabilities, as defined in GASB Statement No. 67, were 48.55% for PFRS and 31.2% for PERS at June 30, 2016, due to numerous years of underfunding by the state, aggressive assumptions, and weak market performance. Under current funding assumptions, PERS' exhaustion is projected for 2034 with PFRS' depletion by 2050. These projections reflect a discount rate of 7.65%, the Buck-modified mortality-projection table, and the projected-unit-credit-actuarial methodology, all of which we consider somewhat aggressive.

The state lowered its return assumption to 7.65% from 7.90% in fiscal 2016. It is phasing in a reduction to 7% over the next five fiscal years, a change that, while positive in that it lowers the system's reliance on investment returns, will also result in higher contributions for local government units. In fiscal 2016, the town made its portion of the actuarially determined contribution (ADC) of \$1.6 million for PFRS and \$1.0 million for PERS.

Although New Jersey separates assets and liabilities between local and state employers when calculating the local government's contribution, these are cost-sharing systems as defined by GASB; therefore, there is no legal separation. Assets are in a common pool, and all employer contributions go to this common pool. Benefits are paid to plan retirees regardless of whether the corresponding employer fully paid its contribution or not. Since the state has not fully funded its contribution requirement for more than a decade for either plan, we believe local government annual pension contributions could increase if the state were to deplete assets allocated for funding calculations.

Legislation passed in 2017 transfers lottery revenue to PERS, PFRS, and the Teachers' Pension & Annuity Fund; it also changes the timing of pension funding payments to quarterly from year-end. We believe this legislation will have a moderately positive effect on the systems because the New Jersey should no longer be able to abstain completely from contributing. However, paying 100% of the ADC into the plans would mitigate the risk of underfunding. Furthermore, to the extent the overall system becomes increasingly underfunded,; experiences negative cash flows,; or needs to revise its return assumptions downward, local governments could face increasing contributions.

The town also provides OPEB through its participation in the state health benefit program, and it has made 100% of the OPEB annual required contribution.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our opinion of Secaucus' very strong economy, with access to ample employment opportunities given its proximity to New York City. The outlook also reflects our opinion of the town's very strong liquidity and strong budgetary flexibility. In addition, we believe Secaucus will likely continue to take steps to maintain

at least adequate budgetary flexibility. As such, we do not expect to change the rating within the two-year outlook.

Upside scenario

We could raise the rating if the town's budgetary flexibility is sustained at a significantly higher level or if Secaucus formalizes additional financial policies and practices.

Downside scenario

We could lower the rating if budgetary performance and flexibility were to deteriorate substantially to levels no longer commensurate with the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

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

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