

# RatingsDirect®

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## Summary:

# Robbinsville, New Jersey (Mercer County); General Obligation

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### Credit Profile

US\$7.79 mil GO bnds ser 2017 due 05/15/2047

*Long Term Rating*

AA+/Stable

New

Robbinsville Twp (Mercer Cnty) GO

*Long Term Rating*

AA+/Stable

Affirmed

## Rationale

S&P Global Ratings has assigned its 'AA+' rating to Robbinsville Township, N.J.'s series 2017 general improvement bonds and series 2017 open space bonds. At the same time, we affirmed our 'AA+' rating on the township's existing general obligation (GO) debt. The outlook is stable.

The township's full faith and credit pledge and its agreement to levy ad valorem property taxes without limitation as to rate or amount secure the 2017 bonds.

Robbinsville plans to use the proceeds to refund existing bond anticipation notes (BANs) issued toward the acquisition and remediation of the Washington Woods properties.

In our view, the rating reflects our opinion of the township'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 general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.5% of total governmental fund expenditures and 1.5x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 21.8% of expenditures and net direct debt that is 244.2% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### Very strong economy

We consider Robbinsville's economy very strong. The township, with an estimated population of 14,293, is in Mercer County in the Trenton MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 182% of the national level and per capita market value of \$177,278. Overall, market value grew by 1.8% over the past year to \$2.5 billion in 2016. The county unemployment rate was 4.8% in 2015.

The township is approximately one hour from both New York and Philadelphia, with major highways such as the New Jersey Turnpike and Interstate 195 crossing through. Its convenient location has made it attractive to many large companies to house warehouse operations. Robbinsville boasts approximately 12 million square feet in warehouse space, with a 98% occupancy rate. Amazon.com recently opened its mega-warehouse and other warehouse tenants include many big-name companies such as LongChamp USA, Mercedes Benz, and Global International.

In addition to the township's successful warehouse sector, Robbinsville is also experiencing new commercial and residential growth. Various new commercial and retail projects are under development or already under construction, including a YMCA and a new medical office. Officials also believe that the addition of new high-end homes--Robbinsville Estates and Raajipo--will continue to add to the township's growing tax base.

### **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.

The township maintains a practical approach with its budgeting and management practices. Management typically keeps budget projections conservative and considers historical trends when making revenue and expenditure assumptions. Budget-to-actual reports are reviewed monthly by the mayor, administrator, and finance staff, and amendments and updates are allowable prior to either the introduction or adoption of the budget with council approval. Management also tracks all of the township's capital improvement needs, along with the funding sources of each project, through a six-year annually updated capital improvement plan. However, the township does not maintain a formal multiyear projection for its long-term financial arrangements. As for financial policies, state guidelines are used when it comes to the township's debt or investment management practices. Investment holdings are monitored monthly by management, however. There is also no formal policy regarding the township's reserves.

### **Strong budgetary performance**

Robbinsville's budgetary performance is strong, in our opinion. The township had balanced operating results of negative 0.2% of expenditures in the general fund and negative 0.2% across all governmental funds in fiscal 2016.

The township's financial performance has been stable over the last several years. Robbinsville benefits from a stable and predictable revenue profile with property taxes as its largest revenue source, and collections remain very strong.

Unaudited results for 2016 suggest the township will close with a decrease in current fund balance of roughly \$50,000, or about 0.4% of expenditures. Despite that decline, we anticipate budgetary performance will remain strong and in line with its past performance due to the stable budgetary environment. The decline in 2016 reflects the use of budgetary reserves to fund capital appropriations in the budget. We note Robbinsville generally appropriates budgetary surplus toward its budget each year, but has done well budgeting conservatively and maintaining budgetary stability.

The 2017 budget totals 23.6 million, an increase of 5% over the previous year. The township is assuming higher miscellaneous revenues and property taxes. We note that the debt service associated with this issuance will be funded in part by an increase in the municipal open space tax, which was voted on by the township residents.

Looking ahead, we believe that pension and OPEB liabilities will remain a budgetary pressure given the low funded

ratio of its state-administered plans. The township has done well managing future costs by working with collective bargaining units and eliminating mandatory health care for new hires. For now, the township is funding its contractual amount for pensions, and is paying OPEBs on a pay-as-you-go basis. Given the challenges at the state level regarding pension funding, we expect future increases are inevitable and that may strain future operations for the township, particularly if economic or business conditions worsen and actuary assumptions for its pensions are not met, revised, or found to be inadequate at the state level.

### **Very strong budgetary flexibility**

Robbinsville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 20% of operating expenditures, or \$4.4 million.

We anticipate the township's reserves will remain very strong and in line with years past, largely because the current budgetary environment is stable and there is no expectation that it use reserves to fund capital. The township has demonstrated a track record of maintaining reserves in excess of 15% over several years.

### **Very strong liquidity**

In our opinion, Robbinsville's liquidity is very strong, with total government available cash at 33.5% of total governmental fund expenditures and 1.5x governmental debt service in 2016. In our view, the township has strong access to external liquidity if necessary.

The township does not invest aggressively and is not exposed to variable-rate or privately placed debt. Current holdings are largely in bank deposits. Robbinsville maintains what we view as strong access to external liquidity, with long-term GO bond issuances within the past 15 years. Looking ahead, we anticipate liquidity will remain very strong given the steady budgetary environment and limited capital needs.

### **Very weak debt and contingent liability profile**

In our view, Robbinsville's debt and contingent liability profile is very weak. Total governmental fund debt service is 19.8% of total governmental fund expenditures, and net direct debt is 244.2% of total governmental fund revenue.

The current amortization accounts for Robbinsville's projected BAN repayment schedule. The township is anticipating issuing long-term debt to take out the BANS this calendar year, or roll-over the notes and eventually take them out next year or in 2019.

Following this issuance, Robbinsville will have approximately \$54 million in total direct debt outstanding. Roughly \$16.6 million is in BANS. At the moment, there are no sizable debt authorizations that would weaken the debt factor.

In our opinion, a credit weakness is Robbinsville's large pension and OPEB obligation. Its combined required pension and actual OPEB contributions totaled 7.6% of total governmental fund expenditures in 2015. Of that amount, 5.4% represented required contributions to pension obligations, and 2.2% represented OPEB payments. The township made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 48.5%.

The township participates in two cost-sharing multiemployer 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 52.8% for PFRS and 38.2% for PERS as of June 30, 2015.

The township also contributes to OPEBs on a pay-as-you-go basis. As noted, in 2007 it negotiated with the unions and eliminated this benefit for future hires. The current OPEB liability totals 16.9 million. There is currently no mechanism in place that allows for pre-funding of this liability.

After flat cost increases over the past several years, pension and OPEB costs are projected to increase. Given the changes to the administered plans' discount rate and weak market returns, we expect that the township's pension and OPEB costs will rise as a result, which could affect our view of this factor.

### Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

## Outlook

The stable outlook reflects S&P Global Ratings' opinion of Robbinsville's very strong liquidity and economy. Accordingly, we do not expect to raise or lower the rating within the outlook's two-year horizon.

### Downside scenario

Should Robbinsville face budgetary pressures due to increasing fixed costs, resulting in weakened fund balances, we could lower the rating.

### Upside scenario

Should the township implement more formalized financial management policies and debt and liability factors improve, while financial metrics remain strong, we could raise 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

Ratings Detail (As Of April 25, 2017)		
Robbinsville Twp (Mercer Cnty) GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
<b>Robbinsville Twp GO</b>		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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