S&P Global
Ratings

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Summary:

Mercer County, New Jersey; General Obligation; General Obligation Equivalent Security; Note

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Credit Profile		
US$77.784 mil BANs ser 2022A due 06/05/2023		
Short Term Rating	SP-1+	New
US$62.8 mil GO bnds ser 2022 due 02/01/2034		
Long Term Rating	AA+/Stable	New
Mercer Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty BANs ser 2022A due 06/05/2023		
Short Term Rating	SP-1+	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Mercer County, N.J.'s series 2022 general obligation (GO) bonds and its 'SP-1+ short-term rating to the county's series 2022A bond anticipation notes (BANs). At the same time, we affirmed our 'AA+' rating on the county's existing GO bonds and affirmed the 'AA+' on Mercer County Improvement Authority's existing debt, which is guaranteed by the county as well as our 'SP-1+' short-term rating. The outlook, where applicable, is stable.

The county's full-faith-and-credit pledge, including an agreement to levy unlimited ad valorem taxes on all taxable property within county limits, secures its GO bonds and BANs. The short-term BAN rating reflects our high investment-grade, long-term rating and the county's low market risk profile. In our view, and in accordance with our criteria, titled "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011, on RatingsDirect), we assess the county's market risk as low because of its strong market access, information availability, and takeout authorization. The rating on the authority bonds reflects our view of the county's unconditional guarantee of full and prompt payment of principal and interest on the bonds when due and payable. The guarantee qualifies as a form of credit enhancement and, in our view, is based on the county's unconditional promise to pay the guaranteed obligation on the due date when remedies against the primary obligors are exhausted. For issues that carry the county's guarantee, none of the transactions include obligors with unenhanced ratings that exceed the rating on the county.

Proceeds from the bonds will be used to refund the county's outstanding BANs, while BAN proceeds will be used to finance various county capital projects.

Credit overview

Mercer County has a very large tax base and a very strong economy, located between--and with access to--Philadelphia and New York City. Management leveraged the strength of the economy to produce strong financial results in the decade following the Great Recession, leading to improved reserve levels that did not materially decline in 2020. Its past and planned efforts to control expenditures have helped it manage additional budgetary pressure from escalating fixed costs associated with growing debt and retirement costs, although mandatory participation in the state's poorly-funded pension plans will likely lead to elevated required contribution increases over the next few years Mercer County also plans to issue airport enterprise debt in an amount to be determined in the next year that it anticipates supporting entirely through airport fees and charges from the addition of a new terminal and parking garage.

The long-term rating reflects our view of the county's:

- Stable area economy with employment anchored in the state and local government, education, and health care sectors coupled with excellent access to both the Philadelphia, Pa. and New York City employment bases;
- Consistent tax base growth with no taxpayer concentration and above average wealth and income indicators;
- Sound financial position with historically strong reserves guided by a well-seasoned management team; and
- A sizable debt burden somewhat offset by rapid principal amortization coupled with plans for ample additional airport debt, which could place pressure on finances if not self-supporting.

Environmental, social, and governance

We analyzed Mercer County's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and incorporated them in our credit rating analysis. However, the state's governance and funding discipline of its pension plans are expected to lead to higher contribution costs for all local governments across New Jersey. Tropical Storm Ida did affect several communities in the county, but FEMA has covered an ample portion of cost.

Stable Outlook

Downside scenario

We could lower the rating if finances were to deteriorate significantly or the county were to experience budgetary pressure due to increasing fixed costs, leading to a drawdown on reserves.

Upside scenario

We could raise the rating if the county's economic growth continued while it increased and maintained reserves at very strong levels and implemented more formal comprehensive financial management policies.

Credit Opinion

Stable economy that benefits from easy access to two regional employment bases

Mercer County residents enjoy easy access to both the New York and Philadelphia MSAs due to an expansive transportation network, which includes the New Jersey Turnpike and Interstate 95. State and local government is the largest sector, followed by education and health services. New Jersey employs a significant number of county residents, and it largely maintained its staffing levels during the pandemic. This stability has likely kept the unemployment rate from climbing above 10%. The county is also home to five colleges, including Princeton

University, Rider University, and the College of New Jersey. Multiple hospitals are among the top employers, including Capital Health Systems, RWJ University Hospital, University Medical Center and Princeton, and St. Francis Medical Center. These institutions have historically buttressed the county's very strong economy. While some of these organizations closed or reduced operations for part of 2020, we understand they are now all open.

Residential properties contribute the large majority of the county's assessed value, and management notes those values held up well during the pandemic. In March, it dedicated approximately $11 million of received federal funds to rental assistance for struggling residents. Officials acknowledged that office space properties did not fare as well, as is common elsewhere. In addition to rail- and roadways, the county also includes three air facilities, one of which it operates. We understand that traffic at the county-owned Trenton-Mercer Airport fell during the pandemic, but it has started to recover. It remains a focus airport for Frontier Airlines and it is adding another fixed-base operator for shipping.

Well-seasoned management team with adequate fiscal policies

Highlights include:

- The county's finances are supported by conservative budgeting estimates that use a three-year historical review to estimate revenues and expenditures. We note that, despite annual appropriation of surplus, Mercer County has had a recent history of better-than-budgeted results.
- Budget-to-actual reports are reviewed by the county's CFO biweekly and presented monthly to the county executive and to the board if any irregularities are present. The budget may be amended as needed throughout the year in accordance with state statutes.
- The county presents state-required long-term financial projections in its budgets and conducts additional internal multiyear budget planning.
- Capital planning is done annually as part of the budgeting process for the current year plus an additional five years with identified projects, costs, and funding sources.
- Mercer County's cash management plan mirrors state guidelines for allowable investments, with interest earnings reviewed monthly.
- The county lacks formally adopted debt management policies but follows state guidelines.
- Its informal reserve policy is to maintain a minimum surplus level of 5%-7% of current fund budget, to which it currently adheres and reserves have been well above those levels.

Historically sound financial position and reserves

Fiscal 2020 closed slightly better than estimates, with a modest $3.6 million drawdown against a roughly $370 million budget. We understand $3.0 million of the drawdown was due to a current fund advance to a trust fund that crossed fiscal years. The remainder was the result of modest shortfalls in airport income, recreation facility fees, and foreclosure-related sheriff fees. Nonetheless, available current fund balance remained strong at $36.99 million or 10% of expenditures. Approximately 74% of current fund revenue came from property taxes, which are collected and guaranteed by the constituent municipalities. County liquidity remains very strong. In March and April of 2021, the county purchased short-term debt issued by its underlying municipalities to facilitate funding while municipal credit markets remained squeezed. However, all of these notes have matured without incident. Although some municipalities delayed property tax payments to the county in 2020, county liquidity was not constrained, and it did not have to rely on cash-flow borrowing.

Unaudited fiscal 2021 results project a $3.2 million surplus. Contributors to the surplus included the repayment of the interfund loan, and positive variances in the clerk's office and golf fund revenues, despite shortfalls in the sheriff's office due to limited foreclosures. In addition, the county is slated to receive a total of $11.4 million in FAA (Federal Aviation Administration) CARES Act money, which it has used portions in fiscal years 2020 and 2021 for appropriations. While the fiscal 2021 and fiscal 2022 budgets do not include ARPA funds, the county is slated to receive $35.6 million in both 2021 and 2022. We understand it used a portion of the funds to replace missed revenue from 2020 and is meeting with stakeholders to determine priorities for the remainder. Management conveyed that it did not intend to fund recurring expenses with the proceeds.

The fiscal 2022 introduced budget totals $358.01 million. Adoption of the budget is expected shortly. The fiscal 2022 budget includes a flat tax levy and a reduction in fund balance utilized from its traditional $14 million to $6.2 million as it will used stimulus money to bridge the gap.

We believe that the efficacy of cost-cutting measures in fiscal years 2020 and 2021 and the planned adoption of a structurally balanced budget for 2022, and receipt of ample federal funding, all suggest the county's financial position will generally remain stable in the near term. Over a longer term, we expect that pension and other postemployment benefits (OPEB) costs could escalate and potentially pressure budgets, although increased state funding could help mitigate this risk. In 2019, Mercer County approved a plan to consolidate correctional services with Hudson County, a move it estimates could save approximately $12 million per year. The process has been halted as part of a lawsuit challenging the plan, which continues. The county plans to finance the airport debt through usage fees and charges under a newly created utility fund. However, if that revenue is insufficient to support the obligation, it could pressure current fund budgets. This plan has been in development for several years, and we do not expect it will significantly worsen our view of performance in the near term.

Sizeable overall fixed costs which could place pressure on finances over time

We calculate that the county has approximately $495 million in direct debt that it issued, and $129 million issued by MCIA and guaranteed by the county. When including roughly $78 million in BANS and $107 million in capital lease debt, the total rises to $680 million. Excluding BANs, approximately 76% of the net direct debt is scheduled to be repaid within 10 years, which, is in our view, a positive credit factor. We understand the county expects to issue new-money tax-supported debt that approximates amortized amounts over each of the next two years, so we expect it will remain close to level. In addition, it is planning to move forward with an airport terminal and parking garage project. The planned addition is in the final comment period, and management expects construction could begin in calendar 2023. Management plans to establish an airport utility fund and anticipates that the fund and debt service should be self-supporting. We note this issuance could materially increase our overall net debt calculations if it is not adequately supported by fees and charges.

Pension and other postemployment benefits:

- We view pension and OPEB liabilities as a source of credit pressure for Mercer County, as with most New Jersey local governments.

- While it is currently managing pension costs, we believe the county has limited ability to control future growth of these liabilities.
- OPEBs are, by state statute, funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs.

Mercer County participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 58.8% funded, with a proportional share of the net pension liability (NPL) equal to $120.96 million.
- Public Employees' Retirement System: 42.9% funded, with a proportional share of the NPL equal to $131.04 million.
- A cost-sharing multiple-employer retiree health care plan that is by statute pay-as-you-go funded, with a proportionate share of the net OPEB liability equal to $330.9 million.

Although the county is handling pension and OPEB costs, we estimate that combined contribution costs for pension and OPEBs represent 11.9% of expenditures in fiscal 2020, with 5.2% to pension obligations and 6.7% to OPEB payments. Although the county funds 100% of its actuarially determined contributions (ADCs), contributions fell short of both static and minimum funding progress, in part because of poor assumptions and methodologies, but also due to the state's continued underfunding of its portion of the ADC. The plans' 30-year, level-dollar open amortization schedule will result in slow funding progress. For more details and information on these risks, see our report, "New Jersey Pension Funding: State Actions Reverberate At The Local Level," Dec. 12, 2018). Although the state did not make up for lottery contribution shortfalls in fiscal 2020, the governor's budget proposal for fiscal 2022 calls for funding the full annual actuarial contribution for the first time in 25 years, which we view positively.

OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, could lead to escalating costs in the short term. New Jersey does not allow counties to establish dedicated OPEB trusts. If pension or OPEB costs escalate, we believe these expenditures could crowd out others associated with operations and could create budgetary pressure over the long term.

Strong institutional framework

The institutional framework score for New Jersey counties is strong.

Mercer County, New Jersey Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	129			
Market value per capita ($)	130,778			
Population		370,407	376,021	371,183
County unemployment rate(%)		7.4		
Market value ($000)	48,441,264	46,801,857	46,362,470	
Ten largest taxpayers % of taxable value	4.3			

Mercer County, New Jersey Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong budgetary performance				
Operating fund result % of expenditures		(1.0)	0.9	3.4
Total governmental fund result % of expenditures		(1.0)	0.9	3.4
Strong budgetary flexibility				
Available reserves % of operating expenditures		10.0	11.5	11.1
Total available reserves ($000)		36,987	40,579	37,508
Very strong liquidity				
Total government cash % of governmental fund expenditures		18	21	18
Total government cash % of governmental fund debt service		158	174	128
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		11.6	12.2	14.0
Net direct debt % of governmental fund revenue	190			
Overall net debt % of market value	3.2			
Direct debt 10-year amortization (%)	76			
Required pension contribution % of governmental fund expenditures		5.2		
OPEB actual contribution % of governmental fund expenditures		6.7		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 11, 2022)		
Mercer Cnty BANs		
Short Term Rating	SP-1+	Affirmed
Mercer Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth, New Jersey		
Mercer Cnty, New Jersey		
Mercer Cnty Imp Auth cnty secured rev rfdg bnds (mercer cnty projs) (Mercer Cnty)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty Cmnty Coll Proj)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) cnty secd open space rev rfdg bnds		

Ratings Detail (As Of May 11, 2022) (cont.)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) cnty secd rev rfdg bnds (Mercer Cnty Spl Svc Sch Dist Proj)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) guaranteed renewable energy program lease rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) lse rev bnds (County Of Mercer Courthouse Annex Project)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) GO		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) GO lse rev rfdg bnds (County Equipment And Imp Proj)		
Long Term Rating	AA+/Stable	Affirmed
Mercer Cnty Imp Auth (Mercer Cnty) GO (FGIC)		
Unenhanced Rating	AA+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.