

CREDIT OPINION

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Township of Cranford, NJ

Update to credit analysis

Summary

Cranford, NJ (Aa2) benefits from a solid financial position underscored by stable reserves and healthy liquidity. The township also benefits from a strong local economy that is favorably positioned in proximity to major employment hubs and with high resident wealth and income levels. These benefits are somewhat offset by above-average long-term liabilities.

On May 23, 2024, Moody's assigned a Aa2 rating to Cranford, NJ's proposed \$9.7 million of Bonds, consisting of \$8.6 million General Improvement Bonds and \$1.1 million Swim Pool Utility Bonds.

Credit strengths

- » Favorable location
- » High resident wealth and income levels
- » Solid financial position

Credit challenges

- » Above-average leverage position

Rating outlook

Moody's does not assign outlooks to local governments with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Increase in the available fund balance ratio to 45% or higher
- » Decrease in the long-term liabilities ratio to 200% or lower

Factors that could lead to a downgrade

- » Decrease in the available fund balance ratio to 15% or lower
- » Increase in the long-term liabilities ratio to 500% or higher

Key indicators

Exhibit 1

Cranford (Township of) NJ

	2019	2020	2021	2022	Aa Medians
Economy					
Resident income ratio (%)	179.7%	176.6%	175.8%	180.0%	115.2%
Full Value (\$000)	\$4,671,545	\$4,741,149	\$4,699,208	\$4,855,619	\$2,753,876
Population	24,014	24,036	23,823	23,838	22,803
Full value per capita (\$)	\$194,534	\$197,252	\$197,255	\$203,692	N/A
Annual Growth in Real GDP	2.1%	-3.5%	4.8%	2.5%	4.9%
Financial Performance					
Revenue (\$000)	\$39,355	\$39,096	\$41,001	\$44,582	\$49,930
Available fund balance (\$000)	\$11,642	\$11,075	\$9,907	\$11,221	\$27,007
Net unrestricted cash (\$000)	\$15,281	\$15,338	\$17,024	\$14,944	\$36,277
Available fund balance ratio (%)	29.6%	28.3%	24.2%	25.2%	54.0%
Liquidity ratio (%)	38.8%	39.2%	41.5%	33.5%	75.9%
Leverage					
Debt (\$000)	\$47,940	\$48,759	\$45,376	\$47,610	\$35,831
Adjusted net pension liabilities (\$000)	\$89,576	\$114,457	\$98,168	\$81,064	\$55,367
Adjusted net OPEB liabilities (\$000)	\$27,083	\$27,083	\$33,273	\$44,316	\$5,248
Other long-term liabilities (\$000)	\$932	\$1,123	\$1,622	\$1,423	\$1,716
Long-term liabilities ratio (%)	420.6%	489.6%	435.2%	391.2%	244.9%
Fixed costs					
Implied debt service (\$000)	\$4,234	\$3,495	\$3,492	\$3,183	\$2,465
Pension tread water contribution (\$000)	\$3,869	\$3,611	\$3,772	\$3,077	\$1,563
OPEB contributions (\$000)	\$1,241	\$1,241	\$580	\$899	\$178
Implied cost of other long-term liabilities (\$000)	\$57	\$68	\$80	\$114	\$116
Fixed-costs ratio (%)	23.9%	21.5%	19.3%	16.3%	10.7%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area.

Sources: US Census Bureau, Cranford (Township of) NJ's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Cranford is a suburb of New York City in Union County, NJ. It provides public works, public safety, roads, and other municipal services to a population of approximately 23,838.

Detailed credit considerations

Cranford, NJ's local economy will remain strong as it continues to benefit from its favorable location and well-established tax base. The township, located within easy commuting distance of New York City, is approximately 84% residential and 15% commercial and industrial. Although the base is largely built-out, there is a modest amount of ongoing redevelopment, primarily residential, which has and will lead to some growth in its tax base. The five-year compound annual average increase in equalized value is 2.8%. Resident wealth and income levels in the township are strong, with a full value per capita of \$203,692 and an adjusted median household income (MHI) of 180.0% of US MHI.

The township's financial position is solid with very stable reserves and healthy liquidity primarily driven by conservative budgeting and township management's practice of only utilizing fund balance in the annual budget that they believe can be replenished with outperforming revenue streams and lapsing appropriation reserves. This active management of finances has resulted in reserves ranging between 24% and 30% of revenue over last five years. As of year-end 2022, the township had an available fund balance of \$11.2 million, or 25.2% of revenue. Unaudited 2023 figures show available fund balance increasing slightly to \$11.3 million, or 24.7% of revenue. Management expects to end 2024 with another increase in fund balance as they continue to operate in a similar fashion to previous years.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

The township's leverage position is elevated primarily driven by its pension and other post-employment benefits (OPEB) liabilities burden. As of year-end 2022, the township had total long-term liabilities of \$174.4 million, or 391.2% of revenue. Of this, \$47.6 million, or 110.0% of revenue, is attributed to debt while \$125.4 million, or 281.2% of revenue, is attributed to adjusted net pension and OPEB liabilities. The township's issuance of the 2024 bonds will not alter its overall leverage position as the bonds are refunding outstanding bond anticipation notes. The township's debt burden is expect to remain at current levels as it intends to issue small amounts of debt annually for routine capital projects.

ESG considerations

Environmental

The township's environmental risks are moderate. According to data from Moody's ESG Solutions, the township has high exposure to hurricanes and sea level rise. These risks are offset by more inland location, solid reserves, and ongoing efforts by multiple levels of government to mitigate these risks.

Social

Social considerations are material to the township's credit profile. The township has high resident wealth and income levels, low poverty, low unemployment and strong demographic trends.

Governance

The township has a history of conservative budgeting and seeks to appropriate only as much fund balance as it reasonably believes it can replenish.

New Jersey Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. The State has public sector unions, which can limit the ability to cut expenditures

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned. The two notch distinction between the scorecard rating and assigned rating is primarily due to stable finances and leverage position that is mostly concentrated in pension and OPEB liabilities.

Exhibit 2

Cranford (Township of) NJ

	Measure	Weight	Score
Economy			
Resident income ratio	180.0%	10.0%	Aaa
Full value per capita	218,250	10.0%	Aaa
Economic growth metric	-0.4%	10.0%	Aa
Financial Performance			
Available fund balance ratio	25.2%	20.0%	Aa
Liquidity ratio	33.5%	10.0%	Aa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	391.2%	20.0%	Baa
Fixed-costs ratio	16.3%	10.0%	A
Notching factors			
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			A1
Assigned Rating			Aa2

The Economic Growth metric cited above compares the five-year CAGR of real GDP for New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Cranford (Township of) NJ's financial statements and Moody's Ratings

Appendix

Exhibit 3

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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