

# RatingsDirect®

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## Summary:

# Haworth Borough, New Jersey; General Obligation

### Primary Credit Analyst:

Kaiti Vartholomaios, New York + 1(212) 438 0866; [kaiti.vartholomaios@spglobal.com](mailto:kaiti.vartholomaios@spglobal.com)

### Secondary Contact:

Michael Parker, New York + 1 (303) 721 4701; [michael.parker@spglobal.com](mailto:michael.parker@spglobal.com)

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Credit Profile		
US\$4.125 mil GO bnds dtd 07/01/2024 due 02/15/2034		
Long Term Rating	AA+/Stable	New
Haworth Boro GO		
Long Term Rating	AA+/Stable	Upgraded

## Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on Haworth Borough, N.J.'s outstanding general obligation (GO) bonds.
- At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the borough's \$4.125 million series 2024 GO bonds.
- The outlook is stable.
- The upgrade reflects the borough's sustained improvement of fund balances to levels we consider strong, supported by very strong economic metrics, conservative budgeting practices, and a low debt burden compared to peers.

## Security

The borough's full-faith-and-credit pledge secures the GO bonds. A portion of the series 2024 bond proceeds (\$340,000) will be used toward a tax appeal refunding, while the remainder will be used to finance various capital projects.

## Credit overview

The rating reflects Haworth's consistent efforts to grow and sustain fund balances at very strong levels while generating consistently positive operating results through conservative budgeting, supported by high wealth and income metrics in an affluent community near the New York City metropolitan statistical area (MSA). The borough's moderate debt service costs reflect an effort to reduce debt swiftly, as reflected in its extremely rapid amortization; similarly, pension costs remain manageable with limited pressure given that the state covers the borough's other postemployment benefit (OPEB) liabilities and costs.

The rating also reflects our view of the borough's:

- Primarily residential economy with high income metrics and access to the New York-New Jersey MSA;
- Consistently balanced operations with predictable revenue supporting fund balance growth to strong levels;
- Standard policies and practices supported by a strong institutional framework score; and
- Manageable fixed costs bolstered by rapid amortization and relatively limited pension pressures.

## **Environmental, social, and governance**

We assessed the borough's environmental, social, and governance factors relative to its economy, management, financial measures, and debt and liability profile and determined them to be neutral in our credit rating analysis. We consider New Jersey's governance of its pension plans and lack of mechanism to prefund OPEBs a weakness for the state's local governments, although the borough's OPEB liability and associated expenses are fully covered by the state.

## **Outlook**

The stable outlook reflects our view that the borough's economy will continue to support its strong reserve position and consistent financial performance.

### **Downside scenario**

We could take negative rating action if the borough's financial performance or flexibility weakened with no plan to restore. . Similarly, we could lower the rating if the borough's debt burden or pension positions worsened.

### **Upside scenario**

All else being equal, we could raise the rating if the borough formalized its policies and practices while building and maintaining reserves at levels comparable with those of higher rated peers.

## **Credit Opinion**

### **Affluent, mature economy**

Primarily residential (90% of assessed value), the borough serves as a bedroom community in the New York City MSA and employment base, which has enabled it to sustain above-average wealth and income levels and below-average unemployment. Its top taxpayer is the water utility, followed by the two local country clubs and residents. The borough is seeing some modest population growth, which management attributes to its school system, and officials indicate some new development (approximately 40 housing units) currently underway. Overall, we expect the borough's market values to continue to rise.

### **Standard management practices**

Highlights include:

- Three-year historical trend analysis for budget preparation;
- Budget-to-actual monitoring with monthly reports to council;
- A three-year capital improvement plan, as mandated by state statute, which includes projects and financing sources;
- A cash management plan which adheres to state guidelines, with investments recorded in the annual audit; and
- An informal fund balance policy to maintain unassigned fund balance at 7%-10% of the budget (an increase from 5% in 2019).

We note that the borough does not maintain a formal long-term financial plan or a formal debt management policy.

The institutional framework score for New Jersey municipalities is strong.

### **Consistent efforts to build and maintain reserves**

Prior to 2018, the district generated mixed performance results and maintained fund balance at nominally low levels. Since then, it has consistently made efforts to increase reserves to levels we view as strong, totaling over \$1 million in fiscal years 2021 and 2022. Based on fiscal 2023 estimates, the borough's fund balance is expected to reach \$1.571 million, or 15.8% of expenditures, while modestly increasing the tax rate. This does not include its approximately \$355,000 ARPA allocation, which has already been expended on lost public sector revenue and one-time infrastructure improvements. In addition, the borough maintains various trust funds, which can provide additional (albeit low nominally) flexibility to the current fund if needed.

The adopted fiscal 2024 budget totals \$9.96 million and includes a 4.88% tax rate increase to account for increasing wage costs and inflationary pressures, which will generate an 8.6% increase in the total tax levy. While there are no specific plans to draw on reserves in the next few years, management indicates that it intends to adhere to its 10% limit over the longer term. Given the borough's consistent operational performance and conservative budgeting practices, we do not expect a material change to its financial profile.

### **Manageable fixed costs supporting very rapid amortization**

Including this issuance, the borough has \$7 million in total direct debt outstanding. While it has no specific plans to borrow, it expects that annual debt service costs will remain around \$1 million. We note that the borough is repaying a tax appeal for White Beeches Country Club, which was settled in 2021 (\$340,000 of the current issuance is toward this purpose). This is expected to be the final payment and officials do not anticipate it recurring. Overall, given the extremely rapid rate of amortization and the low debt as a portion of total market value, we do not expect a material change to the borough's debt profile.

### **Limited pension pressures**

- We do not view the borough's pension plan as a credit weakness given that costs associated with the plans are just under 7% of the budget and have relatively low liabilities. Despite weak funding levels and a relatively high discount rate of 7%, which could contribute to future cost volatility, both of the borough's plans exceed our static funding calculation metric, which indicates the borough is keeping pace with managing potential liability growth. However, we will continue to monitor for future cost escalation (For more on our view, see our report "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect).

As of June 30, 2022, Haworth Borough participated in:

- Police & Firemen's Retirement System (PFRS): 63.3% funded, with a proportional share of the net pension liability (NPL) equal to \$6.8 million; and
- Public Employees' Retirement System (PERS): 46.4% funded, with a proportional share of the NPL equal to \$5.8 million.
- State Health Benefits Plan: A defined-benefit health care plan for retirees: 0% funded with an OPEB liability of about \$4.99 million, with the state covering the borough's full proportionate share and OPEB expense (\$680,956).

Haworth Borough, New Jersey -- Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
<b>Very strong economy</b>				
Projected per capita EBI % of U.S.	205			
Market value per capita (\$)	325,505			
Population		3,568	3,430	3,461
County unemployment rate(%)		3.4		
Market value (\$000)	1,161,402	1,030,577		
Ten largest taxpayers % of taxable value	11.4			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		(0.6)	4.4	(6.0)
Total governmental fund result % of expenditures		(0.6)	4.4	(6.0)
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		14.0	14.4	9.6
Total available reserves (\$000)		1,266	1,215	829
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		28	28	24
Total government cash % of governmental fund debt service		254	245	206
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		10.9	11.6	11.5
Net direct debt % of governmental fund revenue	67			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	93			
Required pension contribution % of governmental fund expenditures		6.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
<b>Strong institutional framework</b>				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

## Related Research

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

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