

RatingsDirect®

Summary:

Toms River Township, New Jersey; General Obligation; Note

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Credit Profile

US\$46.172 mil GO bnds ser 2024 due 09/01/2044

<i>Long Term Rating</i>	AA/Stable	New
Toms River Township BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed
Toms River Twp gen imp bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Toms River Twp tax appeal refndg bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Toms River Township, N.J.'s roughly \$46.2 million series 2024 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the township's previously issued GO debt.
- In addition, S&P Global Ratings affirmed its 'SP-1+' short-term rating on the township's bond anticipation notes (BANs) outstanding.
- The outlook, where applicable, is stable.

Security

The township's full faith and credit and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the GO bonds and BANs. The short-term rating reflects our criteria for evaluating and rating BANs. In our view, Toms River maintains very strong capacity to make principal and interest payments when the BANs come due. We view its market risk profile as low because the township has strong legal authority to issue long-term debt to take out the BANs and because it is a frequent debt issuer that regularly provides disclosure to market participants.

Officials will use the series 2024 GO bond proceeds to refund all of the township's BANs outstanding, fund various capital improvement projects, and pay the costs of issuance.

Credit overview

The township's resilient economy, strong budgetary performance, and maintenance of very strong reserves, aided by conservative budgeting practices, underpins the rating. Located along the Jersey Shore in Ocean County, Toms River is a primarily residential community with a wealthy property tax base. The township completed a revaluation in 2022 that increased total assessed value by more than 55% to \$20.3 billion. We understand that the township has no major

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tax appeals outstanding, and management maintains a tax appeal reserve of about \$1 million to cover potential appeals. Officials attribute the strong real estate market to strong housing demand and steady commercial development. In addition, officials report that tourism trends remain strong, supporting economic activity in the township.

The township ended fiscal 2023 with another fund balance increase, primarily as a result of good property tax growth associated with the 2022 revaluation, higher interest earnings, strong miscellaneous revenue from emergency medical services and hotel taxes, and conservative budget estimates. In addition, management made budget adjustments in 2023 with the goal of sustaining reserves without property tax rate increases. These adjustments included department consolidations, a reduction in staff, and elimination of a youth services program. Officials are evaluating revenue growth options without property tax increases, including expanding fees for recreation facilities. Property taxes account for 64% of total current funds revenue, and collections have averaged more than 98% for the past several years.

For fiscal 2024, Toms River adopted a \$142.8 million budget, a less than 1% increase over fiscal 2023, including a \$20.2 million fund balance appropriation. Officials report that budget-to-actual results are tracking to budget so far in fiscal 2024, and expect to end fiscal 2024 with balanced operations with no plans to draw down reserves. Financial management practices and policies include Toms River's monthly reporting of budget-to-actual results to the township council and formal six-year capital improvement plan.

With this series 2024 GO issuance, Toms River will have about \$134.6 million in total direct debt. We understand that officials expect to issue about \$1.8 million for a land purchase later in 2024. We think minimal capital needs should limit increased fixed costs, which we view as high when including retirement costs. The township has sizable pension and other postemployment benefit (OPEB) liabilities compared with the budget, totaling about \$451 million, as a result of weak funding and assumptions of the state pension and health benefit plans, which the township is a part of currently. We expect combined fixed costs will likely remain a long-term budget pressure.

The ratings further reflect our view of Toms River's:

- Wealthy tax base that continues to experience growth as a result of housing demand amid access to a broad, diverse metropolitan statistical area, with a small tourism component and secondary home presence;
- Strong operating performance that has led to consistent improvement in available reserves;
- Adequate management with standard financial management policies, and practices under our financial management assessment methodology, including its newly developed long-term financial plan but lack of a formalized reserve policy, and strong institutional framework score for New Jersey municipalities; and
- Large long-term obligations when including debt, pension, and OPEB liabilities, coupled with high fixed costs that we think will likely continue to pressure the budget and limit operating flexibility.

Environmental, social, and governance

We have analyzed environmental, social, and governance risks relative to Toms River's economy, management, financial measures, and debt and liability profile, and we view them all as neutral in our credit analysis. The township is susceptible to physical risks that we see with other coastal communities, including rising sea levels, coastal erosion,

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and flooding. We think these physical risks could lead to unexpected financial pressure if they were to severely affect the township. Toms River is on a five-year nourishment cycle with the Army Corps of Engineers for oceanic dune and beach replenishment. It also has an active roadway elevation project for roadways in flood-prone areas. In addition, its emergency management team coordinates all contingency planning. Management also has extensive climate resilience efforts. Furthermore, although we view the state's governance of its pension plans and lack of mechanism to prefund OPEB as a weakness for New Jersey local governments, these issues affect all New Jersey local governments.

Outlook

The stable outlook reflects S&P Global Ratings' view that Toms River will likely maintain or improve on its very strong reserves while managing fixed costs and its debt and contingent-liability profile.

Downside scenario

We could lower the rating if negative net operations, especially related to high fixed costs, were to cause available current fund balance to decrease consistently.

Upside scenario

We could raise the rating if the township were to implement stronger financial management policies and lower fixed costs and long-term liabilities while maintaining very strong reserves.

Toms River Township key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Very strong economy				
Projected per capita EBI as % of U.S.	114			
Market value per capita (\$)		245,653		
Population		97,327	97,549	92,214
County unemployment rate (%)			3.7	
Market value (\$000s)		23,908,693	21,563,515	17,900,054
Ten largest taxpayers as % of taxable value	2.2			
Strong budgetary performance				
Operating fund result as % of expenditures		7.3	2.8	2.8
Total governmental funds result as % of expenditures		7.3	2.8	2.8
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		35.8	30.1	26.0
Total available reserves (\$000s)		47,381	37,674	34,130
Very strong liquidity				
Total government cash as % of governmental funds expenditures		70	63	54
Total government cash as % of governmental funds debt service		708	562	522
Adequate management				
Financial management assessment	Standard			

Toms River Township key credit metrics (cont.)

	<u>Most recent</u>	<u>Historical information</u>		
		2023	2022	2021
Weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		10.0	11.3	10.3
Net direct debt as % of governmental funds revenue	94			
Overall net debt % of market value	1			
Direct debt 10-year amortization (%)	66			
Required pension contribution as % of governmental funds expenditures		8.6		
OPEB actual contribution as % of governmental funds expenditures		7.8		

Strong institutional framework

Note: Data points and ratios may reflect analytical adjustments. 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
- 2022 Update Of Institutional Framework For U.S. Local Governments

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