

# RatingsDirect®

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## Summary:

# Hillsborough Township, New Jersey; General Obligation; Note

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Credit Profile		
US\$7.876 mil gen imp bnds ser 2025 dtd 01/15/2025 due 01/15/2035		
Long Term Rating	AA+/Stable	New
US\$6.2 mil BANs ser 2025 dtd 02/13/2025 due 02/13/2026		
Short Term Rating	SP-1+	New
HillsboroughTwp BANs		
Short Term Rating	SP-1+	Affirmed

## Credit Highlights

- S&P Global Ratings assigned its 'AA+' long term rating to Hillsborough Township, N.J.'s approximately \$7.9 million series 2025 general obligation (GO) general improvement bonds, and our 'SP-1+' short-term rating to the township's \$6.2 million series 2025 GO bond anticipation notes (BANs), dated Feb. 13, 2025.
- At the same time, we affirmed our 'SP-1+' rating on the township's BANs outstanding.
- The outlook, where applicable, is stable.

## Security

Hillsborough's full-faith-and-credit pledge, including the agreement to levy ad valorem property taxes without limitation as to rate or amount, secures the BANs.

The short-term rating reflects our criteria, "Bond Anticipation Note Rating Methodology," published Aug. 31, 2011, for evaluating and rating BANs. In our view, Hillsborough maintains very strong capacity to pay principal and interest when the BANs come due. The township has what we view as a low market risk profile because it has strong legal authority to issue long-term debt to take out the BANs, frequently issues debt, and regularly provides disclosure to market participants. Note proceeds will be used to renew BANs outstanding. The township issued the BANs initially to acquire a parcel, which it is actively looking to sell to a developer, with the intent to repay the BANs with future land sale proceeds.

## Credit overview

Hillsborough Township's credit profile is supported by incomes that are about on par with county averages--in an affluent county with significant economic activity near New York City--and with per capita and household incomes significantly higher than the U.S. The township has a history of stable finances, notwithstanding recent reserve drawdowns leading to available reserves below those of many state peers. Given the high relative affluence and the township's banked levy capacity of approximately \$1.6 million, we believe the township has the capacity to maintain balance over the long term. We note that total fixed costs are somewhat elevated and would be higher if pension

contributions were sufficient to meet our minimum funding progress metric, although we believe the costs are integrated in the township's budgeting.

Management adjusted the fiscal year-end 2024 (Dec. 31) budget to reduce non-tax revenue that underperformed in 2023 and caused the reserve drawdown, while also raising the millage rate to restore balance to recurring revenue and expenditures. Management projects a budgetary surplus but it is not yet clear if it will fully regenerate reserves appropriated in the 2024 budget. Property taxes generally account for about two-thirds of operating revenue, providing some predictability in the township's primary revenue source. The fiscal 2025 budget process is underway and consistent with state practices, the township will not adopt a final budget until spring 2025. We do not expect material changes in the 2025 budget relative to the 2024 budget.

The rating further reflects our view of Hillsborough's:

- Stable taxing base supported by a stable residential base and income indicators significantly higher than the national average, despite one-third of the township's available land being dedicated for preservation. We also expect incremental growth in the tax base through redevelopment and escalating home values, supported by residents' access to employment opportunities in New York City and other regional employment centers.
- Expectation of at least approximately balanced operating results in the near term given adjustments to the budget with incremental improvement in the three-year average operating result, with available reserves remaining relatively low, although we note that the township maintains approximately \$26.5 million as of fiscal year-end 2023, in trust and capital funds outside the current fund, available to support various capital needs.
- Budgetary assumptions and techniques generally consistent with those of other New Jersey municipalities, including the use of trend analysis when developing revenue and expenditure projections for the upcoming budget year, a six-year capital plan that is part of the state-mandated budget form, and a formal cash management plan that dictates investments and cash holdings. The township does not have formal reserve or debt policies and does not develop long-term operational forecasting, nor does it regularly report on budget-to-actual performance throughout the year, although management might look to improve long-range forecasting and adopt new formal policies over the next several years.
- Expected maintenance of elevated fixed costs, largely due to a long-term, lease-purchase agreement with the county. We calculate approximately \$49 million in gross direct debt, including bonds outstanding, BANs, and leases, with no material near-term debt plans. Retirement costs could increase over the long-term, given aggressive plan assumptions and low funded ratios. The township participates in two state-run pension plans, with proportionate liabilities totaling \$19.3 million (Police and Firemen's Plan) and \$14.9 million (Public Employees Plan). The township is in a special funding situation for its other postemployment benefits, with the state recognizing the township's full liability and fully funding the annual costs.
- Generally predictable state operating environment. For more information on our institutional framework assessment for New Jersey municipalities, see "Institutional Framework Assessment: New Jersey Local Governments," published Sept. 9, 2024 on RatingsDirect.

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

We have assessed the township's environmental, social, and governance factors relative to its economy, management, financial measures, and debt and liability profile, and view them as neutral within our credit rating analysis.

## Outlook

The stable outlook reflects our view that township will maintain financial balance leading to generally stable reserves, supported by the wealthy taxing base with significant employment opportunities for residents throughout the region.

### Downside scenario

If available reserves fall materially lower than the fiscal 2023 year-ending balance, with no projections for incremental restoration, we could lower the rating.

### Upside scenario

If the township lowers its fixed costs and significantly increases reserves, we could raise the rating.

**Table 1**

Hillsborough Township, N.J.--Credit summary	
Institutional framework (IF)	2
Individual credit profile (ICP)	2.26
Economy	1.0
Financial performance	3
Reserves and liquidity	2
Management	2.30
Debt and liabilities	3.00

**Table 2**

Hillsborough Township, N.J.--Key credit metrics				
	Most recent	2023	2022	2021
<b>Economy</b>				
Real GCP per capita % of U.S.	--	--	189	188
County PCPI % of U.S.	--	--	168	166
Market value (\$000s)	--	8,704,240	7,923,242	7,323,993
Market value per capita (\$)	--	198,781	183,736	179,624
Top 10 taxpayers % of taxable value	--	4.2	4.2	4.6
County unemployment rate (%)	--	3.8	3.1	5.4
Local median household EBI % of U.S.	--	182	181	182
Local per capita EBI % of U.S.	--	164	166	175
Local population	--	43,788	43,123	40,774
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	36,642	35,074	32,150
Operating fund expenditures (\$000s)	--	37,747	35,230	31,988
Net transfers and other adjustments (\$000s)	--	--	--	300
Operating result (\$000s)	--	-1,105	-156	462
Operating result % of revenues	--	-3.0	-0.4	1.4
Operating result three-year average %	--	-0.7	1.8	3.4
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	12.5	16.2	18.9

## Summary: Hillsborough Township, New Jersey; General Obligation; Note

**Table 2**

Hillsborough Township, N.J.--Key credit metrics (cont.)				
	Most recent	2023	2022	2021
Available reserves (\$000s)	--	4,589	5,693	6,090
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	8.0	2.1	4.1
Net direct debt per capita (\$)	1,131	1,025	1,012	597
Net direct debt (\$000s)	49,519	44,871	43,633	24,347
Direct debt 10-year amortization (%)	54	19	--	--
Pension and OPEB cost % of revenues	--	10.0	9.0	9.0
NPLs per capita (\$)	--	782	837	732
Combined NPLs (\$000s)	--	34,221	36,100	29,861

Financial data might reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

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