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Summary:

Lumberton Township, New Jersey; General Obligation; Note

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Lumberton Township, New Jersey; General Obligation; Note

Credit Profile

US\$6.685 mil GO bnds ser 2021 dtd 11/01/2021 due 05/01/2037

<i>Long Term Rating</i>	AA/Stable	New
Lumberton Twp BANs		
<i>Short Term Rating</i>	SP-1+	Affirmed
Lumberton Twp GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Lumberton Township, N.J.'s approximately \$6.7 million general obligation (GO) bonds, series 2021, and affirmed the 'AA' rating on the township GO bonds outstanding. The outlook is stable.

At the same time, S&P Global Ratings affirmed its 'SP-1+' short-term rating on the township's bond anticipation notes (BANs) outstanding, all of which will be permanently financed by this issuance.

The township's full-faith-and-credit pledge, including an agreement to levy unlimited ad valorem taxes on all taxable property within Lumberton Township limits, secures its GO bonds and BANs. We understand the series 2021 bonds will be used to permanently finance the township's BANs outstanding as well as provide about \$1.1 million in new money to finance various township projects.

The short-term BAN rating reflects our high investment-grade, long-term rating and the township's low market-risk profile. In our view, and in accordance with our criteria, "Bond Anticipation Note Rating Methodology," published Aug. 31, 2011, we assess Lumberton Township's market risk as low because of the township's strong market access, information availability, and takeout authorization.

Credit overview

Lumberton Township's location and participation in the regional Philadelphia-Camden-Wilmington metropolitan statistical area (MSA) employment base, as well as the township's very strong economy and conservative budget assumptions, underpins a strong financial position. In our opinion, consistently strong budgetary performance in recent years has led to increased current fund reserves to a level we consider very strong, which we believe is a primary stabilizing factor to the rating.

According to management, unaudited fiscal 2020 results show close-to-breakeven operations despite the onset of the COVID-19 pandemic. The township's stable property-tax-based revenue as well as discretionary cuts enacted by

management once the pandemic hit were key factors to Lumberton Township maintaining balanced operations. In addition, we believe the township's very strong budgetary flexibility and liquidity should continue to help insulate it from various macroeconomic risks or shocks. For more information on S&P Global Economics' view, see "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect.)

The rating reflects our opinion of Lumberton Township's:

- Very strong economy, with access to a broad and diverse MSA;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the current fund in fiscal 2019 while reflecting macroeconomic risks associated with the pandemic on near-term economic activity and financial operations even though we believe the township has effectively managed impacts to date;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 51.6% of current fund expenditures and 4.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 13.0% of expenditures and net direct debt that is 123.4% of current fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Environmental, social and governance (ESG) factors

We analyzed Lumberton Township's environmental risks relative to the township's economy, management, financial measures, and debt and liability profile, and determined that they are in line with our view of the sector standard. The rating also incorporates our view regarding the health and safety risks posed by the COVID-19 pandemic. We consider the township's social risks in line with those of the sector. We view Lumberton Township's governance risks as being generally in line with those of peers, although pension funding discipline and assumption choices at the state level will likely lead to elevated and volatile costs for the township.

Stable Outlook

Downside scenario

We could lower the rating if financial performance were to deteriorate materially, leading to decreased available reserves to levels we no longer consider commensurate with the rating.

Upside scenario

We could raise the rating if Lumberton Township's economy were to continue to grow, coupled with strong budgetary performance due to the current pandemic, as well if the township were to adopt more formal policies and practices.

Credit Opinion

Very strong economy

We consider Lumberton Township's economy very strong. The township, with an estimated population of 12,712, is in Burlington County in the Philadelphia-Camden-Wilmington, MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 147% of the national level and per capita market value of \$111,276. Overall, the township's market value grew by 0.7% in 2019 to \$1.4 billion in 2020. The county unemployment rate was 3.3% in 2019, although we note the unemployment rate spiked in 2020 following the onset of the pandemic. Specifically, Burlington County's unemployment rate increased to 14.0% in June 2020. Since then, the unemployment rate has significantly improved and stood at 6.6% as of January 2021.

The 13.34-square-mile township, in north-central Burlington County, is a mix of residential and commercial properties. Township officials expect property tax base growth as several projects come onto the tax rolls. In addition, management is aggressively pursuing redevelopment projects on property deemed underused. The residential base continues to expand, with two separately approved, "almost-shovel-ready" affordable-housing and mixed-use properties. Based on projected and ongoing development, we expect Lumberton Township will likely maintain its very strong economic indicators.

Adequate management

We view the township's financial management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Revenue and expenditure assumptions rely on historical and current economic trends, with management monitoring and reporting budgetary performance to committee members monthly. Investments adhere to state guidelines with management providing quarterly reports to the township board. Lumberton Township's capital plan is a three-year nonrolling plan, but management looks at capital needs yearly. The township currently lacks formal debt management policies, but it aims to keep debt affordable. The Lumberton Township targets reserves at \$2.5 million, which although not formally adopted by council into a policy, is mandated by the township administrator. Management performs informal financial projections with the goal to increase and maintain reserves at targeted levels.

Adequate budgetary performance

Lumberton Township's budgetary performance is adequate in our opinion. The township had surplus operating results in the current fund of 4.7% of expenditures in fiscal 2019.

Our assessment accounts for general risks to budget performance related to the pandemic in fiscal years 2021 and 2022, even though we believe impacts over the past year have been well managed by township management.

Management has a history of maintaining balanced operations, including increases to fund balance resulting primarily from a combination of lean operations, close expense monitoring, conservative budgeting, and reducing discretionary expenditures in fiscal 2020 following the onset of the pandemic. In addition, management has maintained stronger-than-budgeted property taxes and miscellaneous revenue. Property taxes generate 56% of current fund revenue. We understand tax appeals are not a concern at present.

For fiscal 2020, the township appropriated \$890,000 of reserves in the budget, which was consistent with the previous year. According to unaudited fiscal 2020 results, the township used \$327,000 of reserves during the year because of some decline in revenues relating to the pandemic. Specifically, court fees were about \$63,000 lower than budget. In addition, property taxes came in about \$100,000 lower than budget. Lumberton Township experienced some minor expense savings as a result of cuts in discretionary spending. In addition, the township received \$88,000 in Coronavirus Aid Relief and Economic Security Act funding to help offset pandemic-related expenses. At year-end, the township maintained current fund reserves above 40% of expenditures, which we view as very strong.

For fiscal 2021 management indicates that court fees are already well above where they were this time last year and that in general revenues and expenses have been stable. In addition, the township expects to receive \$1.1 million in American Recovery Act of 2021 within the next 60 days. Management indicates it is unlikely these funds will be used in the current fiscal year given there is no immediate need to do so. Ultimately, we expect the township to maintain adequate-to-strong budgetary performance during the current year.

Very strong budgetary flexibility

Lumberton Township's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 43% of operating expenditures, or \$4.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Through conservative budgeting and close expense monitoring, management has grown reserves in recent years to its currently very strong levels. Based on unaudited fiscal 2020 results, we understand that although the township drew down reserves slightly, it still maintained reserves above 40% of expenses. We also understand there are no plans to materially spend down reserves and as such we expect the township will likely maintain very strong budgetary flexibility.

Very strong liquidity

In our opinion, Lumberton Township's liquidity is very strong, with total government available cash at 51.6% of current fund expenditures and 4.0x governmental debt service in 2019. In our view, the township has strong access to external liquidity if necessary.

The township's GO bond and BAN issuances in the past 20 years demonstrate strong access to external liquidity. We note management historically issued tax anticipation notes for timing purposes but due to increased liquidity it has stopped this practice. Furthermore, management confirms it does not have any contingent-liquidity risks from financial instruments, with payment provisions that change on the occurrence of certain events. In addition, the township does not have any investments we deem aggressive because most investments are in certificates of deposit.

Adequate debt and contingent liability profile

In our view, Lumberton Township's debt and contingent liability profile is adequate. Debt service is 13.0% of current fund expenditures, and net direct debt is 123.4% of current fund revenue. Overall net debt is low at 2.6% of market value, which is in our view a positive credit factor.

We understand that the township does not currently have specific plans to issue additional debt within the next two years.

Pension and other postemployment benefits

We do not view pension and other postemployment benefit (OPEB) liabilities as an immediate credit pressure for Lumberton Township despite lower funding and our expectation that costs will likely increase.

Although the township faces increasing pension costs as do most municipalities in the state, it does not offer OPEB to employees, helping limit the total size of its liabilities and mitigate contribution volatility.

While funding policies somewhat mitigate escalating contribution risks for local governments due to low plan funding, Lumberton Township could face escalating pension costs should the state not follow its schedule of increasing pension contributions.

At Dec. 31, 2019, Lumberton Township participates in:

- New Jersey Police & Firemen's Retirement System, which is 60.2% funded, with a proportional share of the net pension liability equal to \$6.0 million; and
- New Jersey Public Employees' Retirement System, which is 42.0% funded, with a proportional share of the net pension liability equal to \$3.5 million.

Lumberton Township's pension contributions totaled 7.3% of current fund expenditures in 2019. The township made its full annual required pension contribution in 2019. Although the township funds 100% of actuarially determined contributions, contributions were short of static funding and minimum-funding progress partially due to poor assumptions and methodologies and the state's continued underfunding of its portion of actuarially determined contributions. The plans' 30-year, level-dollar, open-amortization schedule will result in slow-funding progress. For more details and information on these risks, see "New Jersey Pension Funding: State Actions Reverberate At The Local Level" (Dec. 12, 2018). The state announced it would reduce scheduled fiscal 2021 pension contribution increases and would not make up shortfalls from lottery contributions, which could result in higher required contributions for the township. Lumberton Township does not provide OPEB.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

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