S&P Global
Ratings

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Summary:

Wallington Borough Board of Education, New Jersey; School State Program

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Credit Profile		
US$7.278 mil sch bnds dtd 02/15/2024 due 02/15/2044		
Long Term Rating	AA-/Stable	New
Underlying Rating for Credit Program	AA-/Stable	New
Wallington Boro Brd of Ed GO		
Long Term Rating	AA-/Stable	Affirmed
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to the Wallington Borough Board of Education (BOE), N.J.'s $7.278 million general obligation (GO) bonds.
- At the same time, we affirmed our 'AA-' long-term rating on the BOE's existing GO debt.
- The outlook is stable.

Security

The district's full-faith-and-credit pledge secures the bonds, and the New Jersey Fund for the Support of Free Public Schools program provides additional security. The program pledges a portion of the state fund's assets for a school district's debt service, should the district be unable to meet principal-and-interest payments. The bond rating reflects our opinion of the district's underlying credit quality because it is higher than the current state program rating. Proceeds from the bonds will be used to permanently finance the note outstanding and various capital improvement replacement upgrades at district schools.

Credit overview

The long-term rating reflects our view of the district's stable economy, characterized by assessed value growth and relatively steady enrollment trends, regardless of a slight downfall in fiscal 2023. In addition, the district depends primarily on property taxes, which we consider to be more stable, for the majority of its operating revenues. Wallington Borough BOE has shown strong surpluses over recent years, which can be attributed to underspending and excess revenues, especially growth in state aid. Following continued surpluses, reserves have increased to levels we consider very strong when accounting for delayed state aid payments, which compares favorably with similarly rated state peers. Currently, the district has low debt levels with no plans to issue new debt in the near future.

The rating further reflects our opinion of the district's:

- Balanced economy, which falls behind comparable state peers in terms of income metrics but is slightly offset by increased market values;

- Very strong finances, including reserves that have continued to grow year over year;
- Standard financial management policies and practices under our Financial Management Assessment (FMA) methodology, with some formal policies and practices; and
- Low debt and limited pressure from pension obligations due to state contributions.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) factors relative to the district's economy, management, financial measures, and debt profile, and view them as neutral in our credit analysis. We view the state's governance of its pension plans and a lack of a mechanism to prefund other postemployment benefits (OPEB) as a weakness for New Jersey local governments and school districts. While unlikely, if the state were to shift those costs onto school districts, it could pressure finances.

Outlook

The stable outlook reflects our expectation that the district will continue to produce balanced-to-positive operating results and maintain reserves at or slightly below current levels.

Downside scenario

Although our credit opinion incorporates the likelihood that reserves will remain in a range we consider very strong, we could consider a negative rating action if the district were to draw down on operations and reserves decrease as a result.

Upside scenario

Though unlikely given that the district's economic indicators are not yet commensurate with those of higher-rated peers, we could consider a positive rating action during the next two years if wealth and income indicators improve substantially.

Credit Opinion

Built-out and diverse residential tax base contributes to below-average income levels against in-state peers

The district serves an estimated population of 11,800 in Bergen County, about 10 miles west of New York City. The district benefits from its close proximity to the city's employment base, with easy access via an extensive road and public transportation system. Their participation in the New York City metropolitan statistical area has contributed to incomes we view as strong, based on median house effective buying income (EBI) as a percentage of national levels.

Though the district is primarily residential, it also has a modest commercial presence. A strong real estate market can be attributed to an overall increase of market value by 27.6% in the last five fiscal years. Overall economic factors continue to support operations. The tax base is considered very diverse, with apartment complexes and industrial properties among the top 10 taxpayers.

Very strong finances boosted by excess revenues and underspending, leading to a steady increase in reserves

Wallington Borough BOE has continually demonstrated an operating surplus, including surpluses since fiscal 2018. These surpluses helped allow the district to build up its total fund balance, including delayed state aid payments to 33.3% of expenditures. Ultimately, the large increases can be attributed to an overall increase in state-sourced revenues and savings in key areas. State aid has been a major source of revenue for the last couple of years, as the district has seen continued increases given it was previously considered underfunded by the state. The extra state aid, begun in 2019, will soon come to an end, with one more year remaining. We do not see this as pressure for the future, given the district has room in its budget to increase the local tax levy and stay within the state-mandated levy cap of 2%. The local tax levy accounts for the majority of the district's revenues, at about $17.016 million, or 58.8% of general fund revenues in 2023, followed by state aid at 39.5%.

In fiscal 2023, audited figures provided by the district show another year of strong surpluses, totaling $2.02 million, as well as further improvement in reserves. Management indicates the district spent $3.7 million less than what was originally appropriated and was able to replenish $2.2 million in appropriated surplus. The district mainly saw these savings in special education and health benefits. At the same time, the district added $2.09 million to its total fund balance.

For fiscal 2024, the district has appropriated $2.9 million, in line with historical trends, that we expect it to fully replenish. We understand there are no material changes expected to the budget, nor does management expect a material change to reserves. As a result, we believe the district will maintain at least a very strong level of reserves at year-end, while predicting the same amount of surplus as in previous years.

Standard financial management policies and practices, lacking long-term financial planning, debt, and reserve policies

Budget assumptions are conservative, and include a two-year historical trend analysis when developing the budget. Management provides monthly budget-to-actual performance reports to the school board. The district maintains an investment management policy that adheres to state guidelines, with monthly reports to the board. Management maintains a minimal long-range facilities and capital plan that is updated periodically, as needed. The district does not perform a long-term financial planning and lacks a formal debt management policy. However, management targets the state limit of 2% of expenditures of undesignated, unreserved fund-balance reserves.

Low-to-moderate overall net debt and liability profile, with average amortization over the next 10 years and no immediate additional debt plans

Following this issuance, the district has approximately $9.871 million in net direct debt outstanding, and management indicates no additional debt plans in the next two to three years.

Pension and OPEB liabilities:

New Jersey contributes to a large majority of pension and OPEB on behalf of the district, so budgetary pressure from pension expenses is currently limited. However, we view funded ratios for the New Jersey Teachers' Pension & Annuity Fund (NJTPAF) and New Jersey Public Employees' Retirement System (NJPERS) as below adequate.

District employees also participate in a state-administered OPEB plan, for which the state funds 100% of contributions.

If the state were to require a local contribution for NJTPAF or OPEB, it could lead to budgetary stress for this and other school districts; however, we view this scenario as unlikely during the next two years.

The district participates in:

- NJTPAF, a state-administered plan, which has a fiduciary net position as a percent of total pension liabilities equal to 32.3%, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67; and
- NJPERS, which has a fiduciary net position of 46.4%.

Wallington Borough Board of Education--Key credit metrics

	Characterization	Most recent	Historical information		
			2023	2022	2021
Economic indicators					
Population				11,839	11,436
Median household EBI % of U.S.	Strong			112	105
Per capita EBI % of U.S.	Strong			111	103
Market value ($000)		1,403,897	1,403,897	1,321,155	1,222,071
Market value per capita ($)	Extremely strong		118,582	111,593	106,862
Top 10 taxpayers % of taxable value	Very diverse		14.4	14.4	14.4
Financial indicators					
Total available reserves ($000)			8,353	6,333	4,147
Available reserves % of operating expenditures	Very Strong		30.9	23.8	16.6
Total government cash % of governmental fund expenditures			32.4	21.2	19.5
Operating fund result % of expenditures			7.5	6.1	5.2
Financial Management Assessment					
Enrollment			1,256	1,264	1,258
Debt and long-term liabilities					
Overall net debt % of market value	Low	2.0	1.4	2.0	2.0
Overall net debt per capita ($)	Moderate	2,371	1,838	2,251	2,114
Debt service % of governmental fund noncapital expenditures	Low		3.0	2.9	1.8
Direct debt 10-year amortization (%)	Average	50	76	100	100
Required pension contribution % of governmental fund expenditures			0.8	0.7	0.7
OPEB actual contribution % of governmental fund expenditures			0.0	0.0	0.0
Minimum funding progress, largest pension plan (%)				85.4	72.7

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