

RatingsDirect®

Summary:

Maywood Borough, New Jersey; General Obligation

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Credit Profile

US\$10.97 mil gen imp bn ds dtd 09/15/2021 due 09/15/2032

Long Term Rating AA/Stable New

Maywood Boro GO bn ds

Long Term Rating AA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' rating and stable outlook to Maywood Borough, N.J.'s roughly \$10.97 million series 2021 general obligation (GO) bonds and affirmed its 'AA' rating, with a stable outlook, on the borough's existing GO debt.

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

Officials plan to use series 2021 bond proceeds to fund various capital projects.

Credit overview

The rating reflects our view of the borough's very strong economy and balanced operating results during the past three fiscal years, which have led to the continued maintenance of very strong budgetary flexibility. At the same time, we view pension and other postemployment benefit (OPEB) liabilities as large; we expect retirement costs to continue to increase due to low funding, which could pressure the long-term budget.

The stable outlook reflects S&P Global Ratings' view that management will likely continue to manage costs and maintain current reserves by making necessary budgetary adjustments to sustain balanced operations and continue to budget revenue and expenses conservatively. Therefore, we do not expect to change the rating within the two-year outlook.

The rating reflects our view of the borough's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate financial management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund in fiscal 2020;
- Very strong budgetary flexibility, with available fund balance in fiscal 2020 at 27% of operating expenditures;
- Very strong liquidity, with total government available cash at 56.4% of general fund expenditures and 7.2x

governmental debt service, and access to external liquidity we consider strong;

- Adequate debt-and-contingent-liability profile, with debt service carrying charges at 7.8% of expenditures and net direct debt that is 73.5% of general fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 80.7% of debt scheduled to be retired within 10 years, but a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have analyzed environmental and governance risks relative to Maywood's economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. The borough also maintains various cybersecurity protections and plans.

Stable Outlook

Upside scenario

We could raise the rating if debt and retirement liabilities were to decrease while Maywood manages pension and OPEB costs and maintains very strong reserves through balanced operations.

Downside scenario

We could lower the rating if management were to draw down reserves significantly or retirement costs were to pressure the budget, leading to consistent negative financial operations.

Credit Opinion

Very strong economy

We consider Maywood's economy very strong. The borough, with a population estimate of 9,777, is in Bergen County in the New York-Newark-Jersey City MSA, which we consider broad and diverse. Projected per capita effective buying income is 127% of the national level and per capita market value is \$149,435. Overall, market value decreased by 1.7% during the past year to \$1.5 billion in fiscal 2020. County unemployment was 9.6% in 2020 due to COVID-19.

Maywood is a mature suburban community just seven miles west of New York City. Residents find ample, varied employment in the broad and diverse economy. The property tax base is primarily residential with residential property making up about 80% of assessed value (AV), followed by commercial property at 11%. There is no taxpayer concentration with the 10 leading taxpayers accounting for 8.6% of AV. AV has increased by approximately 31% in fiscal 2021 due to reassessment. Officials indicate there are no major tax appeals outstanding.

We understand there have been no major changes in the local economy during the past few years, and COVID-19 did not negatively affect tax collections or local economic activity. Officials of the fully built-out borough indicate an old Sears distribution center is currently being redeveloped. In addition, its real estate market continues to thrive due to recent housing trends and a desirable location and composition. Therefore, we expect the borough's economy will likely remain very strong.

While we think the borough's economy will likely remain stable, especially since we imagine economic recovery will likely continue to accelerate and the risk of recession will likely lessen, we posit the lingering effects of COVID-19, including elevated state and regional unemployment, could potentially lead to slower-than-expected economic growth. (For more information on COVID-19's effect on the U.S. public finance sector, see the articles, titled "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021; and "Credit Conditions North America Q3 2021: Looking Ahead, It's Looking Up," published June 29, 2021, on RatingsDirect.)

Adequate management

We view the borough'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.

Budgeting assumptions are generally conservative with management conducting a minimum three-year historical trend analysis when budgeting, and it reports budget-to-actual results to the borough board monthly. While Maywood does not have formal long-term financial plans, it maintains a three-year capital improvement plan. Its formal investment-management policy follows state guidelines and formal reserve policy limits fund balance to no less than \$1.5 million, which it is compliant with currently. There is no formal debt-management policy. The borough also has various cybersecurity protections.

Strong budgetary performance

Maywood's budgetary performance is strong, in our opinion. The borough had surplus general fund operating results at 1.6% of expenditures in fiscal 2020.

Maywood has maintained consistently strong budgetary performance during the past five fiscal years with only one fund-balance drawdown in fiscal 2019. Officials primarily attribute this to budgeting more conservatively and maintaining good expenditure control during the past few fiscal years. They also attribute the fiscal 2019 drawdown to a one-time planned use of fund balance. In addition, officials attribute fiscal 2020 positive results to higher-than-budgeted revenue, such as building permit fees. The borough slowed down operations during fiscal 2019 and implemented a temporary hiring freeze, which led to expenditure savings.

The fiscal 2021, \$18.9 million budget represents a 4.6% increase over fiscal 2020, including a \$2.5 million fund-balance appropriation. We understand the budget does not contain any major changes in operations compared with fiscal 2020, and there is no tax increase. Officials indicate budget-to-actual results are currently on target, and they expect to end the fiscal year with another fund-balance increase. Maywood expects to receive \$1 million in American Rescue Plan Act of 2021 funds; it has used the first half of this payment, received in fiscal 2021, to increase tax appeal reserves and set up a compensated absence reserve. Therefore, we expect budgetary performance will likely remain strong. Property taxes account for 68% of general fund revenue, followed by miscellaneous revenue at 18%.

Very strong budgetary flexibility

Maywood's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2020 at 27% of operating expenditures, or \$4.8 million.

Management has steadily improved reserves during the past few fiscal years due to positive operations. Although the borough appropriated \$2.5 million in fund balance for fiscal 2021, officials do not currently expect to end the fiscal year

with a reserve drawdown. The borough also maintains a formal reserve policy that limits fund balance to no less than \$1.5 million, which it has adhered to during the past three fiscal years. Therefore, we expect budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Maywood's liquidity is very strong, with total government available cash at 56.4% of general fund expenditures and 7.2x governmental debt service in fiscal 2020. In our view, the borough has strong access to external liquidity if necessary.

In our view, Maywood's frequent bond and note issuance during the past 20 years demonstrates its strong access to external liquidity. The borough does not have any direct-purchase debt obligations.

Adequate debt-and-contingent-liability profile

In our view, Maywood's debt-and-contingent-liability profile is adequate. Debt service is 7.8% of general fund expenditures, and net direct debt is 73.5% of general fund revenue. Overall net debt is low at 2.2% of market value and officials plan to retire approximately 80.7% of direct debt during 10 years, which are, in our view, positive credit factors.

With this series 2021 issuance, the borough will have about \$13.9 million in total direct debt. Officials do not currently plan to issue additional debt during the next two years to three years.

Pension and OPEB highlights:

- We view pension and OPEB liabilities as a credit pressure for Maywood because costs represent a large portion of the budget, and we expect state fiscal pressure will likely result in higher contributions for local governments. In fiscal 2020, contributions represented 9.9% of total current-fund expenditures: 6.6% for pensions and 3.3% for OPEB.
- Maywood funds OPEB liabilities on a pay-as-you-go basis, which, due to claims-volatility and medical-cost and demographic trends, is likely to lead to higher costs. While the borough has some legal flexibility to alter OPEB, it cannot prefund these costs, increasing the risk these benefits could create budgetary pressure.

As of Dec. 31, 2020, Maywood participates in:

- New Jersey Police & Firemen's Retirement System, which was 58.8% funded, with a proportionate share of the net pension liability equal to \$11.4 million;
- New Jersey Public Employees' Retirement System, which was 43% funded, with a proportionate share of the net pension liability equal to \$3.7 million; and
- New Jersey's defined-benefit health-care plan--providing retiree health care until death--which was 0% funded, with an OPEB liability of about \$10.5 million.

Maywood made its full annual required pension contribution in fiscal 2020, as required by state law. Contributions fell short of static- and minimum-funding progress due partially to poor assumptions and methodologies but also because of the state's continued underfunding of its portion of the actuarially determined contribution. In our opinion, the plans' 30-year, level-dollar, open-amortization schedules will likely result in slow-funding progress. In our view, an assumed

long-term rate of return of 7.5% for both plans could lead to contribution volatility. (For more details and information on these risks, see our report, titled "New Jersey Pension Funding: State Actions Reverberate At The Local Level," published Dec. 12, 2018.)

The borough also provides OPEB to eligible retirees through the state health-benefits program, a state-administered, cost-sharing, multiple-employer, defined-benefit, postemployment, health-care plan. It funds these benefits on a pay-as-you-go basis with no prefunding mechanism, limiting its ability to plan for rapidly escalating costs. We imagine annual required contributions will likely continue to increase due to the cost trajectory of health care.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Related Research

- 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
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

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