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Ratings

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Summary:

Lyndhurst Township, New Jersey; General Obligation; Note

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Table Of Contents

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Credit Profile		
US$16.99 mil BANs dtd 02/03/2023 due 02/02/2024		
Short Term Rating	SP-1+	New
Lyndhurst Twp GO		
Long Term Rating	AA/Stable	Affirmed
Lyndhurst Twp GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Lyndhurst Township, N.J.'s $16.9 million series 2023 general obligation (GO) bond anticipation notes (BANs).
- S&P Global Ratings also affirmed its 'AA' long-term and underlying ratings on the township's GO debt outstanding.
- The outlook on the long-term rating is stable.

Security

Lyndhurst'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 for evaluating and rating BANs. In our view, Lyndhurst maintains very strong capacity to pay principal and interest when the BANs come due. It 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. Proceeds from the notes will be used to roll over existing notes issued to finance general improvements, including road projects.

Credit overview

Lyndhurst's very strong local economy with high economic indicators and participation in the New York metropolitan statistical area (MSA) supports our view of the rating. The strong revenue base and management's conservative budgeting approach have allowed the town to maintain mostly balanced operations over the past few years and steadily improve reserve levels despite some pressure from health care costs that led to a deferred charge in 2021. The rating is constrained by the township's very weak debt and liability profile, including large pension liabilities, and its lack of formalized policies and plans in certain areas when compared with those of its peers.

The rating reflects our view of Lyndhurst's:

- Very strong and stable local economy that benefits from participation in a broad and diverse MSA;

- Maintenance of very strong reserves supported by conservative budgeting and stable revenues;
- Standard financial policies, with a strong institutional framework; and
- Elevated debt burden with high pension costs and liabilities.

Environmental, social, and governance

We have analyzed the township's environmental and social risks and view them as neutral within our credit analysis. We understand that the township's location along a creek and a river has historically resulted in some inland flooding. Management is working with a private developer on the Barry's Creek exposure, and New Jersey state and Army Corps of Engineers improvements have targeted Passaic River flooding in the township. We view the state's governance of its pension plans and lack of a mechanism to prefund other postemployment benefits (OPEBs) as a weakness for New Jersey local governments.

Outlook

The stable outlook reflects our expectation that the township will maintain balanced operations while maintaining its fund balance.

Downside scenario

We could lower the rating if the township's performance materially weakens, leading to a sustained draw on reserves.

Upside scenario

We could raise the rating if the township's economic metrics improve while it formalizes additional financial management policies and its long-term liabilities begin to decrease.

Credit Opinion

Wealthy tax base and stable local economy with participation in a broad and diverse MSA

The township, with a population of 21,637 over five square miles, is in Bergen County, approximately five miles from New York City. It is in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. Access to employment throughout northern New Jersey and New York City has resulted in above-average wealth and income levels. The township's tax base is primarily residential at 60%. It is located near the New Jersey Sports and Exposition Authority's Meadowlands Sports Complex. Recently, increased warehouse and logistics developments have boosted the commercial/industrial component of the tax base and remain a growth area for the township. Management reports steady commercial and residential development. Given the strength of the tax base and expected continued growth, we expect that the town's local economy will remain very strong.

Stable financial performance with consistently very strong reserves

Fiscal 2021 results include adjustment for deferred charges related to a special emergency authorization for repair and clean-up costs incurred from Hurricane Ida. Results also included deferred costs associated with higher-than-expected costs in the employee group health plan. An appropriation in fiscal 2022 addressed this charge, and the township has taken steps to mitigate the impact of changes in health care costs.

Aside from the special emergency authorization, revenues exceeded the budget and expenditures were on target for fiscal 2021. The primary source of revenue is property taxes, which accounted for 87% of revenues in fiscal 2021, and the township reports that collections were stable through COVID-19.

The 2022 budget totaled $47.9 million, an approximately 12% increase over the prior year's budget, and included a $6 million use of fund balance, which is $2.1 million more than in the previous year. However, management reports that preliminary 2022 results indicate that the available fund balance will increase to between $17.0 and $17.5 million, up from $16.9 million at the end of the previous year. In addition to the current fund balance, the township maintains dedicated reserves that it can use for specific expenses. These include $351,000 for absences and $272,000 for recreation. It also has approximately $3.2 million in banked levy capacity that it could use to exceed state levy limits, if necessary, in future years. Management has cited maintenance of these reserves as a priority and we do not expect to change our view of the township's flexibility in the near term.

The fiscal 2023 budget is being finalized. Management is providing for level services in 2023 and will incorporate the township's conservative budgeting practices, especially in regard to revenues like hotel tax and fees associated with construction, which have been especially strong revenue sources over the last few years.

The township also received about $2.3 million in American Rescue Plan Act (ARPA) funds, which has been used for water meter upgrades and to help cover the employee group health appropriation. Although no formal reserve policy exists, the township does not have plans to draw down on reserves.

The township does not have any contingent-liquidity risk from financial instruments with payment provisions that change upon certain circumstances, and it does not use investment vehicles we consider permissive. The township has strong access to external liquidity, if necessary, given its regular issuance of debt over the past 20 years.

Standard management financial policies that include a formal capital improvement plan

In developing the budget, the township uses revenue and expenditure assumptions that include zero-based budgeting, peer comparison, and historical trend analysis. Budget-to-actuals are monitored frequently, with bimonthly reports to the finance commission and monthly to the board. The township annually produces five-year revenue and expenditure projections as part of its budget process on an informal basis. It also produces a six-year capital improvement plan that identifies funding sources for the current year and is updated annually. The township follows state guidelines for investments and reports holdings at least annually, with additional reviews when investments are not limited to cash deposits. It has not adopted its own policies governing debt or fund balance and follows state requirements for debt issuance and reserve reporting. Cyber security measures are in place to mitigate cyber risks.

The institutional framework score for New Jersey municipalities is strong.

Elevated debt, with plans to issue some additional debt

Subsequent to this issuance, the township will have about $86.3 million in total direct debt, with about $17.0 million made up of short-term debt and $38.1 million in overlapping tax-supported debt outstanding from the school district and county. The township may issue some additional debt over the next couple of years, including about $5 million for a new turf field and road improvements. It is also planning for additional water and sewer infrastructure work, to be supported by rate payers. We do not expect to change our view of its debt profile in the outlook period.

Pension and other postemployment benefits

We view pension as a source of credit pressure for Lyndhurst, as with most New Jersey local governments. While it is currently managing pension costs, we believe the township has limited ability to control future growth of these liabilities given state restrictions and funding discipline. OPEBs are, by state statute, funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, is likely to lead to escalating costs. Lyndhurst participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 71.4% funded, with a proportional share of the net pension liability (NPL) equal to $22 million.
- Public Employees' Retirement System: 51.5% funded, with a proportional share of the NPL equal to $19.4 million.
- A single-employer retiree health care plan that is by statute pay-as-you-go funded, with a proportionate share of the net OPEB liability equal to $37.2 million.

Lyndhurst's combined required pension and actual OPEB contributions totaled 7.9% of current fund expenditures in 2021. Of that amount, 6% represented required contributions to pension obligations, and 1.9% represented OPEB payments. Although it funds 100% of its actuarially determined contributions (ADCs) for pensions, contributions fell short of both static and minimum funding progress, in part because of poor assumptions and methodologies, but also due to the state's underfunding of its portion of the ADC. The plans' 30-year, level-dollar open amortization schedule will result in slow funding progress. For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect. OPEB liabilities are funded on a pay-as-you-go basis, which, given claims volatility as well as medical cost and demographic trends, could lead to escalating costs in the short term. New Jersey does not allow municipalities to establish dedicated OPEB trusts. If pension or OPEB costs escalate, we believe these expenditures could crowd out others associated with operations and create budgetary pressure over the long term.

Lyndhurst Township, NJ: Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita EBI % of U.S.	116.4			
Market value per capita ($)	157,003			
Population		21,637	21,939	22,023
County unemployment rate (%)		6.0		
Market value ($000)	3,397,082	3,397,082	3,226,271	
Ten largest taxpayers % of taxable value	13.4			
Adequate budgetary performance				
Operating fund result % of expenditures		(2.4)	1.1	11.6
Total governmental fund result % of expenditures		(2.4)	1.1	11.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		39.2	44.3	44.0
Total available reserves ($000)		16,937	17,244	16,833

Lyndhurst Township, NJ: Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong liquidity				
Total government cash % of governmental fund expenditures		58.5	59.1	62.2
Total government cash % of governmental fund debt service		434.5	399.0	407.1
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		13.5	14.8	15.3
Net direct debt % of governmental fund revenue	170.5			
Overall net debt % of market value	2.9			
Direct debt 10-year amortization (%)	50.6			
Required pension contribution % of governmental fund expenditures		6.0		
OPEB actual contribution % of governmental fund expenditures		1.9		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of January 18, 2023)		
Lyndhurst Twp GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Lyndhurst Twp GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.