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Ratings

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## Summary:

# Riverside Township Board of Education, New Jersey; School State Program

**Primary Credit Analyst:**
Charlene P Butterfield, New York + 1 (212) 438 2741; charlene.butterfield@spglobal.com

**Secondary Contact:**
Lauren Freire, New York + 1 (212) 438 7854; lauren.freire@spglobal.com

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**Summary:**

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| Credit Profile | | |
|---|---|---|
| US$16.841 mil sch bnds ser 2023 due 11/01/2043 | | |
| *Long Term Rating* | A+/Stable | New |
| *Underlying Rating for Credit Program* | A+/Stable | New |
| Riverside Twp Brd of Ed rfdg sch bnds | | |
| *Long Term Rating* | A+/Stable | Affirmed |
| *Underlying Rating for Credit Program* | A+/Stable | Affirmed |
| Riverside Twp Brd of Ed SCHSTPR (AGM) | | |
| *Unenhanced Rating* | A+(SPUR)/Stable | Affirmed |
| *Underlying Rating for Credit Program* | A+/Stable | Affirmed |

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term and underlying (SPUR) ratings to Riverside Township Board of Education (the district), N.J.'s $16.8 million series 2023 bonds.
- At the same time, we affirmed our 'A+' long-term and underlying ratings on the district's general obligation debt outstanding.
- The outlook is stable.

### Security

The district's full-faith-and-credit pledge and its agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the bonds. The New Jersey Fund for the Support of Free Public Schools provides additional bond security. The long-term rating reflects the district's underlying credit quality because the program rating is based on the currently lower state appropriation rating. Management will use bond proceeds to fund various capital projects throughout the district, most notably a two-story addition to the existing school with additional classroom space, roof and window replacements, and drainage site work around the facilities. Management expects to complete all projects by January 2025.

### Credit overview

The rating reflects our view of the district's track record of operating surpluses, increasing enrollment and state aid support, offset by economic metrics we consider weak compared with those of local rated peers, and a relatively low, albeit rising, reserve position. The district's overall economy remains stable with limited prospects for significant growth, given Riverside Township's mature status. In the past few years, the district has become increasingly reliant on state aid, which now accounts for 68% of total general fund revenues. In our view, the district's debt burden is somewhat elevated as a percentage of market value when compared with that of similarly rated peers. During the next few years, we expect the district will increase reserves, which over time would provide a greater offset to the weaker economic metrics and increased debt burden.

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

- Stable economy, which participates in the greater Philadelphia regional employment base;
- Very diverse tax base;
- Expanding enrollment, as well as increasing state aid receipts;
- Sound financial operations; and
- Currently limited district-supported retirement obligations, owing to the state's contributions on behalf of the district, although there is long-term potential that the state might push some of these costs down to the districts in a stress scenario.

### Environmental, social, and governance

We have analyzed the district's environmental and social risks relative to its economy, management, financial measures, and debt and liability profile. District facilities are susceptible to moderate flooding as a result of poor drainage systems; management plans to upgrade the drainage system surrounding the facilities as part of the upcoming capital project. We view these risks as neutral in our credit analysis. In our view, the district has taken appropriate steps to mitigate cyber risk. We view the state's governance of its pension plans and lack of a mechanism to prefund other postemployment benefits (OPEB) as a weakness for New Jersey local governments and school districts.

## Stable Outlook

### Downside scenario

We could consider a negative rating action if a trend of operating deficits emerges, if the district's reserves or economic metrics decrease from current levels, or if state aid receipts fall markedly during the next two years.

### Upside scenario

Although unlikely given the relatively weak economic metrics and increasing debt load, we do not expect to raise the rating during the next two years. However, we could consider a positive rating action should the district increase its reserves substantially to levels commensurate with those of higher-rated peers, and maintain sound operating results.

## Credit Opinion

### Stable economy with very diverse tax base and low unemployment

The district encompasses 1.6 square miles in Burlington County, approximately 28 miles southwest of Trenton and 17 miles northeast of Philadelphia. The primarily residential district is built-out and has a modest commercial and industrial component. Because of the county's proximity to two diverse and regional employment bases, as well as the county itself, county unemployment has historically been below state and national rates, where we expect it to remain.

As of December 2022, the county unemployment rate was 2.6%. The district's market value increased recently following the completion of over 100 townhomes, which we believe will strengthen the economy. Despite this growth, wealth and income metrics lag those of similarly rated local peers, with per capita effective buying income of 77% in fiscal 2021, down from 81% in the previous year. The tax base is very diverse, in our opinion, with the 10 largest taxpayers accounting for less than 5% of assessed value.

The district provides prekindergarten through 12th grade education in three schools that share a single building. Enrollment has increased 12% since fiscal 2020 to 1,535 in the current academic year, with student growth from families relocating to the area from Brazil and Central America. Management expects enrollment will remain stable, with only incremental growth each year.

### Record of operating surpluses, low reserves

Through the past few years, the district has recorded operating surpluses, earning $1.4 million in fiscal 2021 compared with $1.2 million in fiscal 2020. Although the fiscal 2022 audit is not yet available, management expects to record another operating surplus, consistent with previous years. State aid is the district's largest revenue source, accounting for 68% of general fund revenues in fiscal 2021, followed by property taxes at 32%. In fiscal 2022, the district received $14.8 million in state aid, up from about $12 million in fiscal 2021, and expects to receive about $17 million in fiscal 2023. Reserves risen to adequate levels during the past few years; management expects to increase them with continued surpluses derived from greater state aid receipts and a planned 2% tax increase in the next school year. Despite its intention, management has not stated a specific reserve target. During the past two years, the district received an estimated $6.1 million in federal stimulus money, which management used to fund student devices for remote learning, hire staff, create programs to provide mental health support and address learning loss during the COVID-19 pandemic, and other budget needs.

### Solid management practices

We believe the district's management practices are sound. Highlights include the use of historical trend analysis for budget preparation and monthly monitoring and reporting of budget-to-actual results. The district uses financial plans that it monitors periodically, though in our view, the plans remain somewhat informal compared with those of rated peers. The district uses the state-required five-year capital and building maintenance plan, which, although periodically updated, does not include funding sources. It adheres to state guidelines for investments, and monitors investments monthly. The district does not have any formal debt issuance or reserve policies, beyond what is stipulated in state guidelines.

### Moderate debt burden, limited future debt plans beyond series 2023 bonds

The district's overall net debt burden is moderate in our view, as a percent of market value at 6.0% and on a per capita basis at $4,218. Amortization is slower than average, with 36% of direct debt scheduled to be retired within 10 years.

### Pension and OPEB liabilities

The state contributes on behalf of the district for a large majority of the district's pension and OPEB, so budgetary pressures from pension expenses are currently limited. However, we view the funding of both New Jersey Teachers' Pension & Annuity Fund (TPAF) and New Jersey Public Employees' Retirement System (PERS) as below adequate. District employees also participate in a state-administered OPEB plan, for which the state funds 100% of contributions on the district's behalf. If the state requires a local contribution to TPAF for OPEB, it could lead to budgetary stress for this and other school districts; however, we view this scenario as unlikely over the next two years.

The district participates in the following state-administered pension plans:

- TPAF, which has a fiduciary net position, as a percentage of total pension liabilities, as defined in Governmental Accounting Standards Board Statement No 67, equal to 35.5% as of June 30, 2021; and
- PERS, which has a fiduciary net position of 51.5% as of June 30, 2021.

**Riverside Township Board of Education, New Jersey -- Key Credit Metrics**

| | Characterization | Most recent | Historical information | | |
|---|---|---|---|---|---|
| | | | 2022 | 2021 | 2020 |
| **Economic indicators** | | | | | |
| Population | | | | 7,612 | 7,648 |
| Median household EBI % of U.S. | Good | | | 93 | 103 |
| Per capita EBI % of U.S. | Adequate | | | 77 | 81 |
| Market value ($000) | | 537,282 | 464,483 | 424,050 | 444,044 |
| Market value per capita ($) | Strong | 70,584 | 61,020 | 55,708 | 58,060 |
| Top 10 taxpayers % of taxable value | Very diverse | 4.2 | 4.2 | 4.2 | 4.1 |
| **Financial indicators** | | | | | |
| Total available reserves ($000) | | | 291 | 232 | 86 |
| Available reserves % of operating expenditures | Adequate | | 1.0 | 0.9 | 0.3 |
| Total government cash % of governmental fund expenditures | | | 8.9 | 9.9 | 3.7 |
| Operating fund result % of expenditures | | | 4.7 | 4.4 | 1.0 |
| Financial Management Assessment | Standard | | | | |
| Enrollment | | 1,535 | 1,529 | 1,414 | 1,368 |
| **Debt and long-term liabilities** | | | | | |
| Overall net debt % of market value | Moderate | 6.0 | 3.3 | 2.1 | 2.6 |
| Overall net debt per capita ($) | Moderate | 4,218 | 2,005 | 1,145 | 1,528 |
| Debt service % of governmental fund noncapital expenditures | Low | | 2.7 | 2.9 | 2.9 |
| Direct debt 10-year amortization (%) | Slower than average | 36 | 100 | 100 | 100 |
| Required pension contribution % of governmental fund expenditures | | | 1.0 | 1.0 | 0.9 |
| OPEB actual contribution % of governmental fund expenditures | | | - | - | - |
| Minimum funding progress, largest pension plan (%) | | | | 72.7 | 58.4 |

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