

RatingsDirect®

Summary:

Howell Township, New Jersey; General Obligation

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Howell Township, New Jersey; General Obligation

Credit Profile

US\$3.33 mil GO bnds ser 2023 due 03/15/2033

<i>Long Term Rating</i>	AA/Stable	New
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Howell Twp GO rfdg bnds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Howell Twp GO rfdg bnds due 11/01/2035

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Howell Township, N.J.'s approximately \$3.33 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the township's existing GO debt.
- The outlook is stable.

Security

The township's full-faith-and-credit GO pledge secures the bonds.

Officials intend to use series 2023 bond proceeds to finance new firefighter communications equipment.

Credit overview

Howell is in Monmouth County in the New York-Newark-Jersey City metropolitan statistical area (MSA), which we consider broad, diverse. Property tax base growth has been steady during the past few years, supported by residential and commercial development, specifically industrial warehouses.

Reserves decreased to \$7.8 million in fiscal 2021 after many years of growth that led to a peak of \$10.8 million. Officials report that as of fiscal year-end 2022, reserves totaled approximately \$11.8 million, including about \$3.3 million in deferred school funding. The approximately \$55.7 million 2022 budget included a \$4.86 million reserve appropriation. Appropriating fund balance to balance the budget is a typical practice, and this amount is lower than previous fiscal years. In past years, the township has been able to replenish appropriated fund balance. Revenue supports broadly higher-than-budgeted results in fiscal 2022, especially construction fee revenue. The township has relied on American Rescue Plan Act of 2021 funding, and its allocation was \$4.8 million.

Officials are working on a fiscal 2023 budget. Like other New Jersey municipalities, it is facing sizable increases in pension and health-insurance costs, and management is looking at efficiencies and other operational flexibility to incorporate higher costs.

Our view of Howell's management environment remains adequate with standard financial-management policies and

practices under our Financial Management Assessment (FMA) methodology, and the township continues to adhere to financial policies discussed in our last report on the township, published Nov. 24, 2020, on RatingsDirect. Officials report they may adopt formal debt and reserve policies in 2023. The Institutional Framework score for New Jersey municipalities is strong.

After the series 2023 issuance, Howell will have about \$83.8 million in debt outstanding, including pooled notes and a pooled lease with Monmouth County. The township currently has \$13.85 million of notes outstanding with the county, which it will rollover in March 2023 with an additional \$3 million of new-money debt. It will permanently finance these notes within three years. Howell's elevated pension expenses, which is typical across New Jersey municipalities, are a credit weakness. Across the two plans in which Howell participates, its proportionate share of the net pension liability is \$85 million. While Howell is currently managing pension costs, we think the township has a limited ability to control liability growth due to state restrictions. Combined required pension contributions amounted to 9.3% of current-fund expenditures in 2021. The township does not provide OPEB, so it does not have any reported liability. (For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022.)

The rating reflects our view of Howell's:

- Very strong economy with access to a broad, diverse MSA;
- Maintenance of strong reserves despite decreases in fiscal 2021;
- Adequate financial-management policies, practices with a standard FMA, and a strong Institutional Framework score; and
- High debt, with some pressure from pension costs.

Environmental, social, and governance

We have analyzed environmental and social risks relative to its economy, management, financial measures, and debt-and-liability profile; we view them as neutral within our credit analysis. We view the state's governance of its pension plans as a weakness for New Jersey local governments.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that Howell will likely sustain healthy reserves and that the budget will likely not face pressure from debt or retirement liabilities.

Downside scenario

We could lower the rating if long-term pressure related to retirement obligations or other needs were to lead to significant draws on reserves.

Upside scenario

We could raise the rating if the township were to adopt and implement stronger policies and procedures for long-term financial planning, debt, and reserve levels or if it were to reduce debt while managing retirement costs and maintaining very strong budgetary flexibility through positive financial operations.

Howell Township, New Jersey Select Key Credit Metrics

	Most recent	--Historical information--		
		2021	2020	2019
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	123.6			
Market value per capita (\$)	165,692			
Population		51,719	52,169	52,160
County unemployment rate(%)		5.5		
Market value (\$000)	8,569,407	8,512,282	7,690,882	
10 largest taxpayers as a % of taxable value	2.6			
Weak budgetary performance				
Operating fund result as a % of expenditures		(5.1)	(0.6)	1.3
Total governmental fund result as a % of expenditures		(5.1)	(0.6)	1.3
Strong budgetary flexibility				
Available reserves as a % of operating expenditures		15.0	21.1	21.9
Total available reserves (\$000)		7,830	10,514	10,816
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		58.6	69.9	58.3
Total government cash as a % of governmental fund debt service		371.8	412.0	354.6
Adequate management				
Financial Management Assessment	Standard			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		15.8	17.0	16.4
Net direct debt as a % of governmental fund revenue	125.9			
Overall net debt as a % of market value	1.1			
Direct debt 10-year amortization (%)	58.2			
Required pension contribution as a % of governmental fund expenditures		9.3		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2022 Update Of Institutional Framework For U.S. Local Governments

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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