

RatingsDirect®

Summary:

Ewing Township, New Jersey; General Obligation

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Summary:

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| US\$14.483 mil gen imp bnds ser 2022 due 11/15/2034 | | |
| Long Term Rating | AA/Stable | New |
| Ewing Twp gen imp bnds | | |
| Long Term Rating | AA/Stable | Affirmed |

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to Ewing Township, N.J.'s roughly \$14.483 million series 2022 general improvement bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the township's general obligation (GO) debt.
- The outlook is stable

Security

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

Officials intend to use series 2022 bond proceeds to finance bond anticipation notes permanently and fund additional capital projects.

Credit overview

The rating reflects our opinion of Ewing's growing property tax base with equal access to the New York City and Philadelphia-Trenton metropolitan statistical areas (MSAs). The township benefits from a recent revaluation with property tax revenue, its major revenue source, continuing to grow. Additional revenue, such as payments in lieu of taxes (PILOTs) and cannabis revenue, provides a further cushion for operations and reduces Ewing's reliance on fund-balance budget appropriations. However, we will continue to monitor fixed costs, specifically pension and other postemployment benefit (OPEB), and how these costs pressure performance.

The rating reflects our opinion of Ewing's:

- Expanding tax base with access to the Philadelphia-Trenton MSA;
- Seasoned management team and strong Institutional Framework;
- Strong budgetary performance, resulting in improved reserves and very strong liquidity; and
- Elevated fixed costs with rapidly amortizing debt.

Environmental, social, and governance

We consider Ewing's environmental risk slightly elevated due mainly to hurricane exposure. However, the township has a storm-recovery fund; it has historically received timely reimbursements from Federal Emergency Management

Agency for debris-removal costs. We view governance risk as generally in-line with similar-rated peers, but pension-funding discipline and state assumption choices will likely lead to elevated and volatile costs. We consider social risk neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' expectation that finances will likely remain stable during the next few fiscal years with growing tax base support.

Downside scenario

We could lower the rating if increased fixed costs or other budgetary pressure were to weigh on performance and lead to weakened reserves.

Upside scenario

We could raise the rating if economic indicators and fund balance were to improve to levels we consider comparable with higher-rated peers, coupled with the adoption of more-formal policies and practices, as well as the maintenance of very strong liquidity and budgetary performance while managing fixed costs.

Credit opinion

A residential, industrial, and commercial township continues to redevelop

Due to Ewing's location and direct road-and-rail access with Interstate 95 traversing the township and a Southeastern Pennsylvania Transportation Authority train stop s within its boundaries. Residents have significant employment opportunities, not only in neighboring Trenton and the Mercer County but also in Philadelphia and New York City.

Management reports commercial and residential project construction is ongoing. Ewing has announced several other developments while others have already started construction, which management expects will further increase the tax base and generate additional revenue. Furthermore, Ewing uses PILOT agreements as part of its economic development strategy, which could lead to slightly understated total assessment and market value estimates. Notably, a 30-year PILOT agreement for General Motors' property should generate approximately \$1 million in revenue as of fiscal 2023.

Standard financial-management policies, practices

Highlights include management's:

- Budget preparation using historical trend analysis and zero-based budgeting, and
- Monthly monitoring of budget-to-actual results it shares with the board.

The township maintains a six-year capital-improvement plan it updates annually. The plan, however, only identifies current-year funding sources. The township also maintains a formal cash-management plan. Ewing lacks a formal multiyear financial plan and a debt-management policy. While the township does not have a formal fund-balance policy, management looks to maintain reserves at 10% of expenditures.

The Institutional Framework score for New Jersey municipalities is strong.

Strong budgetary performance with growing reserves, liquidity

Revenue is relatively stable with property taxes generating about 65% of current-fund revenue. Management attributes higher current-fund balance in fiscal 2021 to expenditure savings, PILOT revenue, and a high property tax collections.

For fiscal 2022, Ewing adopted a \$50 million current-fund budget that includes \$435,000 of fund balance, slightly less than fiscal 2021 appropriations and down significantly from prior levels. Management attributes the appropriated fund-balance decrease to consistent, sizable revenue growth, bolstered by ongoing development. Management expects positive fiscal year-end 2022 results despite some higher-than-expected costs. The 2022 budget includes a portion, \$1.2 million, of its American Rescue Plan Act of 2021 funding for revenue replacement. The township will likely use the remainder of its allocation for various infrastructure projects.

We note management said it maintains about \$1.7 million in banked levy capacity, providing some additional budgetary flexibility. Additional revenue streams coming online should help mitigate budgetary pressure due to increased costs associated with its participation in the state health benefit plan, as well as sanitation costs, we expect the township will likely maintain adequate-to-strong budgetary performance.

Fiscal 2021 reserves grew to 11% of expenditures, a level we consider strong and in-line with the township's reserve target. We expect reserve growth as revenue continues to expand. However, we do not expect reserves will likely grow to levels we consider very strong during the two-year outlook. Management confirms it does not have any contingent-liquidity risk, and it primarily maintains funds in commercial deposits. We think the township will likely maintain very strong liquidity.

Rapidly amortizing debt

After the series 2022 issuance, Ewing will have \$32 million in direct debt outstanding with a high level of overlapping debt from the county and school district. Additional debt plans are preliminary with no concrete plans to issue debt during the two-year outlook. Within the next 12 years, Ewing will repay 100% of debt, which, in our view, is a credit positive.

Pension and OPEB highlights

We view pension and OPEB liabilities as a credit weakness for Ewing, as with most New Jersey Local governments, because it remains without an authorized mechanism to keep costs from increasing as a share of the budget and potentially affecting long-term budgetary performance.

We think the township could face increasing liabilities; however, Ewing itself has a limited ability to control liability growth due to state restrictions and funding discipline. It provides OPEB to retirees; however, there is no prefunding mechanism for its share of liabilities.

As of Dec. 31, 2021, Ewing participates in:

- New Jersey Police & Firemen's Retirement System, which is 60.2% funded, with a proportionate share of the net pension liability equal to \$35.5 million;
- New Jersey Public Employees' Retirement System, which is 42% funded, with a proportionate share of the net

pension liability equal to \$47 million; and

- State Health Benefit Local Government Retired Employees' Plan for OPEB, with a proportionate share equal to \$64.9 million.

Although the plans' funded ratios have slightly improved since 2021, they remain significantly underfunded. New Jersey's pension situation, while still generally poor, is improving thanks to a ramp-up in state funding. The state should fully fund its share of annual pension contributions in fiscal years 2022 and 2023, which strengthens credit quality for both the state and local governments. This is subsequent to numerous years of state underfunding, aggressive assumptions, and weak market performance. (For more details, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.)

Ewing Township, New Jersey Select Key Credit Metrics

| | Most recent | --Historical information-- | | |
|--|-------------|----------------------------|-----------|--------|
| | | 2021 | 2020 | 2019 |
| Strong economy | | | | |
| Projected per capita effective buying income as a % of U.S. | 99.8 | | | |
| Market value per capita (\$) | 91,503 | | | |
| Population | | 35,800 | 36,225 | 36,680 |
| County unemployment rate(%) | | 5.2 | | |
| Market value (\$000) | 3,275,813 | 3,275,813 | 3,257,870 | |
| 10 leading taxpayers as a % of taxable value | 11.3 | | | |
| Strong budgetary performance | | | | |
| Operating fund result as a % of expenditures | | 3.4 | 0.7 | (1.0) |
| Total governmental fund result as a % of expenditures | | 3.4 | 0.7 | (1.0) |
| Strong budgetary flexibility | | | | |
| Available reserves as a % of operating expenditures | | 11.0 | 7.7 | 7.0 |
| Total available reserves (\$000) | | 5,466 | 3,808 | 3,471 |
| Very strong liquidity | | | | |
| Total government cash as a % of governmental fund expenditures | | 21.7 | 17.9 | 17.2 |
| Total government cash as a % of governmental fund debt service | | 243.7 | 227.7 | 279.1 |
| Adequate management | | | | |
| Financial Management Assessment | Standard | | | |
| Weak debt and long-term liabilities | | | | |
| Debt service as a % of governmental fund expenditures | | 8.9 | 7.9 | 6.1 |
| Net direct debt as a % of governmental fund revenue | 79.3 | | | |
| Overall net debt as a % of market value | 2.9 | | | |
| Direct debt 10-year amortization (%) | 89.4 | | | |
| Required pension contribution as a % of governmental fund expenditures | | 9.4 | | |
| Other postemployment benefits actual contribution as a % of governmental fund expenditures | | 12.5 | | |

Ewing Township, New Jersey Select Key Credit Metrics (cont.)

| | <u>Most recent</u> | <u>--Historical information--</u> | | |
|---------------------------------------|--------------------|-----------------------------------|------|------|
| | | 2021 | 2020 | 2019 |
| 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

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