

RatingsDirect®

Summary:

Bellmawr Borough, New Jersey; General Obligation

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Credit Profile

US\$13.288 mil GO bnds ser 2020 due 07/15/2050

<i>Long Term Rating</i>	AA-/Stable	New
Bellmawr Boro GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'AA-' rating to Bellmawr Borough, N.J.'s 2020 general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AA-' rating on the borough's GO debt outstanding. The outlook is stable.

The borough's full faith and credit secures the bonds. Bond proceeds will finance various capital improvements.

Credit overview

Our rating on Bellmawr reflects our view of its stable revenue and expenditure profile over the past six years, the benefits from its proximity to the Philadelphia metropolitan statistical area (MSA), and strong fund balance. In line with our view of the ongoing economic contraction, we believe the closure of nonessential businesses will temper economically sensitive revenue performance and exacerbate unemployment in fiscal 2020. However, given that property tax makes up 60% of the borough's general fund operating revenues, coupled with the lack of significant medium-term debt plans, we believe that the borough is somewhat insulated from the immediate effects of the pandemic and therefore, do not expect it to affect Bellmawr's ability to maintain budgetary balance and pay debt service costs. (See the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect.)

The rating reflects our opinion of the borough's:

- Adequate economy, with market value per capita of \$68,008 and projected per capita effective buying income (EBI) at 80.0%, but that benefits from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund in fiscal 2018, which factors in our view that operating results relative to fiscal 2019 could weaken due to the recession;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.9% of general fund expenditures and 4.2x governmental debt service, and access to external liquidity we consider strong;

- Very weak debt and contingent liability position, with debt service carrying charges at 9.9% of expenditures and net direct debt that is 126.3% of general fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Environmental, social, and governance factors

We understand the borough has bolstered its cybersecurity measures in recent years, though it has not experienced any significant cyberattacks. Management indicates it takes a number of steps to create data redundancy and train employees. Our rating and analysis incorporate our view regarding the health and safety risk posed by the COVID-19 pandemic, which, if sustained, could weaken the borough's economy, liquidity, and budget performance in the short term. Absent the implications of COVID-19, we consider the borough's social risks in line with those of the sector. We also analyzed the borough's environmental and governance risks relative to its credit factors, and determined that both are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If reserves materially decline such that budgetary flexibility worsens to a level no longer commensurate with similarly rated peers, or if increases in the borough's fixed costs, such as higher pension expenses, pressure financial performance, we could lower the rating.

Upside scenario

We believe that upward rating potential is limited at this time, primarily due to the borough's very weak debt and contingent liability profile. To the degree that the borough can significantly improve its debt profile, in addition to maintaining reserves at levels we consider very strong, along with growth in the underlying economic metrics, we could raise the rating.

Credit Opinion

Adequate economy

We consider Bellmawr's economy adequate. The borough, with a population of 11,359, is in Camden County in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. It has a projected per capita EBI of 80.0% of the national level and per capita market value of \$68,008. Overall, market value grew by 0.7% over the past year to \$772.5 million in 2020.

Primarily a residential community, Bellmawr covers approximately 3.7 square miles with access to employment opportunities in Camden County as well as the Philadelphia MSA. Three of the top-five employers in the county are hospitals, including the Cooper University Health System (6,000 employees), Virtua Health System (4,000), and Our Lady of Lourdes Health System (2,300). The other two are United Parcel Service (2,500) and Campbell Soup Co. (2,000). The borough itself has an industrial park complex, which contains various businesses, primarily warehousing and distribution facilities, including the U.S. Postal Service. There are also some paper-related industries within.

Management reports a new agreement relating to the redevelopment of 600 acres for commercial use, which it expects will add to the tax base. The borough reported a 97.4% tax collection rate in 2019, in line with previous years, and has not seen a slowdown as a result of COVID-19-related restrictions.

Despite these latest developments, rapidly evolving economic conditions as a result of COVID-19 have already affected the labor market (see "U.S. Biweekly Economic Roundup: With Unprecedented Job Losses, Unemployment Soars," published May 9, 2020). The county unemployment rate has historically stayed below state and national levels, and is estimated to be 4% in 2019. During the Great Recession, it approached 10.0%. Furthermore, the effects of social distancing and other decisions made to safeguard the community from COVID-19 spread support our view of an economic contraction in 2020. As a result, we will monitor the longer-term effects of the current downturn on the labor market and the economy overall.

Adequate management

We view the borough's 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.

The borough budgets conservatively and incorporates a five-year historical trend when making its assumptions. Furthermore, management monitors the budget on a weekly basis and provides quarterly budget-to-actual reports to freeholders. Investment management adheres to the guidelines established as part of the borough's cash management plan, providing monthly monitoring and reporting of holdings and performance to freeholders.

Management informally uses a long-term financial plan internally with considerations for new revenue sources. Capital needs are outlined in a formal six-year capital improvement plan that is updated annually as part of the borough's budget. The borough does not have a formalized debt management or a reserve policy, but with regard to the latter, it informally does not appropriate more than 50% of the fund balance annually.

With regard to cybersecurity, the borough has invested in various safeguards, including network firewalls and approval-based access to network drives and applications. Employees are provided with relevant training and regular phishing exercises are conducted. The borough maintains insurance coverage for cyberattacks and related events.

Adequate budgetary performance

Bellmawr's budgetary performance is adequate, in our opinion, which factors in our view that operating results relative to fiscal 2019 could weaken due to the recession. The borough had surplus operating results in the general fund of 4.4% of expenditures in fiscal 2018.

According to audited fiscal 2018 results, the borough replenished the \$504,000 of reserves used in the budget and added approximately \$400,000 to fund balance as a result of more conservative budgeting and good revenue growth, in our view, as well as a decline in delinquent taxes.

The borough used \$167,000 of its fund balance reserves in its budget for 2019 as planned for tax relief purposes. It typically appropriates up to 50% of its fund balance for the succeeding year's budget. For fiscal 2020, management appropriated \$1.7 million of reserves in the budget, in line with prior years. Despite the onset of COVID-19 and a national recession, we understand the borough's revenues have not been significantly affected, primarily because of a revenue mix that is dominated by real property taxes. In fact, management indicates it expects stable revenues for the

year across the majority of revenue sources, with the exception of municipal court fees, which have slowed as a result of the closures. We understand the primary cost to the borough so far, according to management, consists of an estimated \$135,000 for cleaning and equipment, for which management expects to be reimbursed by the Federal Emergency Management Agency (FEMA). We understand the borough is considering deferring capital projects and is prepared to make other expenditure adjustments should revenue be affected by the ongoing recession.

Property taxes, the borough's leading revenue source, account for nearly 60% of total current fund revenues. The borough remains within the state-mandated levy cap, levying under the maximum allowable limit. As of fiscal 2021, it is introducing a hotel tax and a medical marijuana tax, which will further diversify its revenue mix.

Very strong budgetary flexibility

Bellmawr's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 21% of operating expenditures, or \$2.9 million.

The borough's reserves have increased in each of the past two fiscal years, building available reserves to a level we consider very strong. Despite the onset of the COVID-19 pandemic, management indicates the borough has not been significantly affected. Therefore, we do not expect a material change in budgetary flexibility in fiscal years 2020 or 2021.

Very strong liquidity

In our opinion, Bellmawr's liquidity is very strong, with total government available cash at 41.9% of general fund expenditures and 4.2x governmental debt service in 2018. In our view, the borough has strong access to external liquidity if necessary.

While the state allows for the aggressive use of investments, Bellmawr does not have any we consider aggressive; cash is maintained primarily in deposits or short-term U.S. treasuries with maturities of less than three months. We expect liquidity to remain very strong given the expectation of continued financial stability. We understand the borough does not maintain any privately placed bank loans or any other financial obligations that, in our view, pose a material contingent liability risk.

Very weak debt and contingent liability profile

In our view, Bellmawr's debt and contingent liability profile is very weak. Debt service is 9.9% of general fund expenditures, and net direct debt is 126.3% of general fund revenue. Overall net debt is 3.3% of market values, and approximately 63.2% of the direct debt is scheduled to be repaid within 10 years.

Following this issuance, the borough's total direct debt is \$17.3 million. The current issuance of \$13.288 million consists of \$6.843 million of general improvement bonds and \$6.443 million of water utility bonds. The borough is authorized to issue an additional \$6.843 million and \$7.8 million, respectively, and intends to do so over the next 11 years. To this end, we understand that it is likely to issue just under \$1 million of debt in the next year to help fund current capital projects. We do not expect this to have a material effect on its debt ratio or our view of its debt profile.

Pensions and other postemployment benefits

- We view pension and OPEB liabilities as a source of credit pressure for Bellmawr, as with most New Jersey local governments.

- While it is currently managing pension costs, we believe the borough has limited ability to control future growth of these liabilities.
- 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.

Bellmawr participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 57.9% funded with a crossover date in 2076, with a proportional share of the net pension liability equal to \$18.4 million
- Public Employees' Retirement System: 40.5% funded with a crossover date in 2057, with a proportional share of the net pension liability equal to \$11.6 million

Bellmawr's combined required pension and actual OPEB contributions totaled 11.4% of general fund expenditures in 2018. Of that amount, 7.2% represented required contributions to pension obligations, and 4.2% represented OPEB payments. The borough made its full annual required pension contribution in 2018. Although the borough funds 100% of its actuarially determined contributions (ADCs), 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 continued 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 our report, "New Jersey Pension Funding: State Actions Reverberate At The Local Level" (published Dec. 12, 2018). We also believe there is a significant possibility the state will reduce annual pension contributions or delay scheduled contribution increases because of the current recession, which could result in higher required contributions for Bellmawr.

OPEB liabilities are funded on a pay-as-you-go basis from the current fund operating budget, which, given claims volatility as well as medical cost and demographic trends, could lead to escalating costs in the short term. During 2018, the borough had approximately 120 employees who met eligibility requirements and recognized expenses of approximately \$826,000. The actuarially determined OPEB liability totals \$14.9 million. New Jersey does not allow counties to establish dedicated OPEB trusts. If pension or OPEB costs escalate, we believe these expenditures could crowd out others associated with operations and could create budgetary pressure over the long term.

Strong institutional framework

The institutional framework score for New Jersey counties is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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