

RatingsDirect®

Summary:

Washington Borough, New Jersey; General Obligation

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Summary:

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Credit Profile

Washington Boro GO & GO rfdg bnds

Long Term Rating

AA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Washington Borough, N.J.'s general obligation (GO) debt by two notches to 'AA' from 'A+', based on Standard & Poor's local GO criteria released Sept. 12, 2013. The outlook is stable.

A pledge of the borough's full faith credit and resources, and an agreement to levy ad valorem property taxes without limit as to rate or amount, secure the bonds.

The rating reflects our assessment of the following:

- We consider Washington Borough's economy adequate, with a projected per capita effective buying income at 103.7% of the U.S., and per capita market value of \$71,164. Located in Warren County, N.J., the borough has access to the broad and diverse Allentown-Bethlehem-Easton, Pennsylvania-New Jersey metropolitan statistical area (MSA). Most residents commute to work throughout the county and northern New Jersey. There is also limited commuting into New York City. In addition, the borough has a strong commercial and industrial base. Warren County's calendar year 2012 unemployment rate was 8.2%. The leading 10 taxpayers account for just 8.5% of assessed value.
- In our opinion, the borough's budgetary flexibility is very strong and has improved in recent years, with reserves rising in the past three fiscal years. In fiscal 2012, reserves were \$1.37 million, or 20.0% of expenditures. Based on anticipated fiscal 2013 financials, we expect the borough's current fund to increase slightly to \$1.45 million.
- The borough's budgetary performance is strong, in our view, and has improved significantly in the past three fiscal years, achieving consistent operating surpluses since fiscal 2010. Washington closed fiscal 2012 with a \$694,000 operating surplus, or 10.1% of current fund expenditures. We understand management is anticipating another operating surplus of about \$71,000 for fiscal 2013, despite allocating approximately \$310,000 in reserves in the budget. Much of the improvement stems from a new management team joining the borough in fiscal 2010 and instituting various expenditure controls to improve financial performance. Washington entered into shared service contracts for its police and municipal court operations with Washington Township and also moved sewer utility billing from a third party back to the borough.
- Supporting the borough's finances is liquidity we consider very strong, with current fund available cash at 48.7% of expenditures and 406.1% of debt service. We believe Washington has strong access to external liquidity. In addition, it discontinued the use of tax anticipation notes to augment its cash flow needs in fiscal 2013 and does not expect to issue any in future.
- We view Washington's management conditions as adequate, with "standard" financial practices under our Financial

Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

- In our opinion, the borough's debt and contingent liabilities profile is adequate, with current fund debt service at 12.0% of current fund expenditures, and net direct debt at 140.4% of current fund revenue. Amortization is rapid, in our view, with nearly 94% of total debt expected to be retired in the next 10 years. Washington's sewer utility debt is supported solely by user charges. At this time, the borough does not anticipate issuing additional debt for the foreseeable future. It contributes to the state-administered pension and made 100% of its annual required contribution (ARC) in each of the past three years. Washington's fiscal 2012 ARC pension costs were 2.1% of expenditures, and we do not expect they will increase substantially in the near term. The borough does not offer other postemployment benefits to its retirees.
- We consider the Institutional Framework score for New Jersey municipalities to be strong. See "Institutional Framework Overview: New Jersey Local Governments," Sept. 12, 2013.

Outlook

The stable outlook reflects our view of the borough's adequate economy, benefiting from its participation in the Allentown-Bethlehem-Easton MSA. It also reflects management's conservative practices that have supported very strong budgetary flexibility and liquidity, and the borough's strong budgetary performance and adequate debt and contingent liabilities profile. As such, we do not expect to change the rating within the two-year outlook period. However, should financial performance weaken, resulting in lower budgetary flexibility and liquidity, we could lower the rating within the two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments, Sept. 12, 2013

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