

RatingsDirect®

Summary:

Livingston Township, New Jersey; General Obligation

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Summary:

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| US\$9.81 mil GO bnds ser 2015 | | |
| <i>Long Term Rating</i> | AA/Stable | New |
| Livingston Twp GO rfdg bnds | | |
| <i>Long Term Rating</i> | AA/Stable | Affirmed |

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Livingston Township, N.J.'s series 2015 general obligation (GO) bonds. At the same time, we affirmed our 'AA' rating on the township's existing GO debt. The outlook is stable.

A pledge of the township's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds. We understand proceeds will be used to permanently finance a portion of the township's outstanding bond anticipation notes (BAN).

The rating reflects our assessment of the following factors for the township, specifically its:

- Very strong economy, with 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;
- Strong budgetary performance, with balanced operating results in the current fund but break-even operating results at the total governmental fund level in fiscal 2014;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 at 8.9% of operating expenditures;
- Strong liquidity, with total government available cash at 15.2% of total governmental fund expenditures and 93.7% of governmental debt service, as well as access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 16.2% of expenditures and net direct debt at 196.7% of total governmental fund revenue; and
- Strong institutional framework score.

Very strong economy

We consider Livingston's economy very strong. The township, with an estimated population of 29,661, encompasses roughly 14 square miles in Essex County, eight miles from Newark and 19 miles from New York City. It is in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 213% of the national level and per capita market value of \$251,875. Overall, market value fell by 1.7% over the past year to \$7.5 billion in 2015. The county unemployment rate was 7.9% in 2014.

The township is mature, affluent, and primarily residential. Given its location, many residents commute to Newark,

New York City, and the surrounding areas for employment. The township is also seeing a number of development projects, including the building of several new residential developments, expansions to the Saint Barnabas Medical Center, and construction of several assisted-living facilities, among other things. The Livingston Mall is also set to see some growth as a new Marriott Residence Inn and a new restaurant are currently in the approval process with construction expected to begin in 2016. As a result of all these projects, management believes the township's market values will remain stable in the next few years. In addition, the township's tax appeals have been declining over the past several years, which has reflected overall stability in assessed values (AVs). There is no taxpayer concentration with the 10 leading taxpayers accounting for 5.4% of AV.

Adequate management

We view the township'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.

Fiscal practice highlights include three-year historical trend analysis used for budget preparation. Management's budget monitoring is sound with budget-to-actual performance tracked weekly and reported to the township manager regularly and provided monthly to the council. Officials also maintain a five-year capital plan that is updated annually and identifies funding sources. The township does have a formal financial planning policy where it looks out five years for revenues and expenditures; however, it is updated every other year. It also maintains an investment policy, which adheres to state guidelines, with reporting on performance and holdings annually. The township, however, is currently in the process of updating the plan to include monthly reporting on investments. A debt management and reserve policy were recently adopted by the council and management will be implementing them from now on.

Strong budgetary performance

Livingston's budgetary performance is strong, in our opinion. The township had balanced operating results in the current fund of 0.3% of expenditures, but a balanced result across all governmental funds of 0.3% in fiscal 2014.

According to management, the township closed fiscal 2014 with a current fund surplus, mainly as a result of conservative budgeting and good budget management throughout the year, as well as a settlement of prolonged tax delinquency from a major taxpayer which resulted in an increase in revenues for the year. For fiscal 2015, management expects to see an increase in fund balance of more than \$600,000 by year-end due to the new growth it saw in the tax base during the year, which resulted in an increase in revenues. As such, we expect the township's budgetary performance to remain strong. The township's revenue profile is stable as property taxes generate about 72% of current fund revenues.

Strong budgetary flexibility

Livingston's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2014 at 8.9% of operating expenditures, or \$3.9 million. The available fund balance includes \$2.5 million (5.6% of expenditures) in the general fund and \$1.4 million (3.2%) that is outside the general fund but legally available for operations.

The township's available fund balance includes legally available reserves that are outside of the general fund. These reserves totaled \$1.4 million in fiscal 2014. The township expects to end fiscal 2015 with about \$3.1 million in current fund available fund balance. Management also estimates it will have about \$1.5 million in available reserves outside the current fund, which would bring its projected total available fund balance to about \$4.6 million in fiscal 2015.

Management also indicates the township will appropriate no more than \$1 million into the fiscal 2016 budget, as it does historically. Therefore, we expect the township to maintain its strong budgetary flexibility in the future.

Strong liquidity

In our opinion, Livingston's liquidity is strong, with total government available cash at 15.2% of total governmental fund expenditures and 93.7% of governmental debt service in 2014. In our view, the township has strong access to external liquidity if necessary.

Livingston has issued GO bonds within the past 15 years, supporting its strong access to external liquidity. The township does not have investments we consider permissive or aggressive, nor any contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events.

Very weak debt and contingent liability profile

In our view, Livingston's debt and contingent liability profile is very weak. Total governmental fund debt service is 16.2% of total governmental fund expenditures, and net direct debt is 196.7% of total governmental fund revenue.

With this issuance, the township has about \$110.5 million in total direct debt. Management plans to issue about \$6.7 million in additional debt over the next few years for additional capital improvement projects.

Livingston's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 7.5% of total governmental fund expenditures in 2014. The township made its full annual required pension contribution in 2014.

The township participates in the New Jersey Public Employees' Retirement System and the New Jersey Police & Firemen's Retirement System. The state administers both plans. The township contributes to the State Health Benefits Program for OPEBs on a pay-as-you-go basis, which totaled \$30,152 in fiscal 2014.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects Standard & Poor's opinion of Livingston's very strong economy, bolstered by its access to the New York City MSA. We believe the township's strong conservative budgeting practices and maintenance of a strong budgetary flexibility over the past few years further support the rating. As such, we expect finances to remain stable and the local area economy to remain very strong, so we do not expect to change the rating.

Upside scenario

Over time, should the township continue to manage and improve its debt and contingent liability profile while experiencing consistent growth in its reserves through positive financial performance, we could raise the rating.

Downside scenario

Likewise, should reserves weaken significantly as a result of deteriorated financial performance, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

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