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Ratings

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Summary:

Collingswood Borough, New Jersey; General Obligation

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Credit Profile		
US$19.752 mil GO bnds ser 2020 dtd 03/12/2020 due 03/01/2040		
Long Term Rating	AA-/Stable	New

Rationale

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

Security and use of proceeds

The GO bonds are secured by the full faith and credit and taxing power of the borough.

Proceeds of the series 2020 bonds will be used to refund, on a current basis, all of the borough's $12,900,000 notes, dated March 19, 2019 and maturing March 18, 2020; permanently finance the cost of various capital improvements in and by the borough in the amount of $7,475,000, including a new emergency response building; and pay the costs associated with the issuance of the bonds.

Credit overview

Collingswood Borough benefits from its proximity to the larger employment centers of Philadelphia and Camden, N.J. Its mostly residential tax base has grown consistently over the past couple of years, which, together with a strong management team, has allowed the borough to post surpluses and build up fund balances. A draw on the fund balance for road-related capital projects in fiscal 2018 had been anticipated and does not alter our view of the borough's finances. That said, long-term challenges remain in the form of large pension and other postemployment benefits (OPEB) obligations. The rating reflects our view of the borough's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2018, which closed with a draw on the general fund balance;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 15% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.0% of total governmental fund expenditures and 1.2x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 19.0% of expenditures and net direct debt that is 213.3% of total governmental fund revenue, and a large pension and OPEB obligation and the

lack of a plan to sufficiently address the obligation, but rapid amortization, with 65.5% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Strong economy

We consider Collingswood's economy strong. The borough, with an estimated population of 13,851, is located in Camden County in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. The borough has a projected per capita effective buying income of 127% of the national level and per capita market value of $78,813. Overall, the borough's market value grew by 1.1% over the past year to $1.1 billion in 2019. The county unemployment rate was 4.6% in 2018.

Based on Collingswood's proximity to Philadelphia, and the presence of a PATCO Speedline Park and Ride Station, the primarily residential borough benefits from easy access to Philadelphia and Camden. Collingswood is almost built out; therefore, redevelopment has been the primary focus over the past decade. In recent years, the borough has redeveloped numerous existing parcels to large apartment buildings and mixed-use residential buildings. With the various longstanding redevelopment projects, the borough has used payment in lieu of taxes (PILOT) agreements. We expect Collingswood's market value will increase during the outlook period as these PILOT agreements continue coming onto the tax rolls.

Collingswood's tax base is primarily residential (89% of the total assessment) and very diverse as the 10 leading taxpayers account for only 3.3% of the tax base.

Strong management

We view the borough's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Collingswood uses six years of historical data in the budget preparation process. Management provides elected officials with monthly budget updates as well as investment reports; investments abide by the borough's investment policy, which is based on state statute. The borough annually revises its six-year capital improvement plan as part of the annual budget document but does not perform long-term financial planning. The debt management policy mirrors state statutes and the reserve policy requires a minimum balance of 5% to 10% of prior-year expenditures to provide cash flow support. The borough has also taken preventive measures to protect itself against emerging risks such as cyber risks.

Strong budgetary performance

Collingswood's budgetary performance is strong, in our opinion. The borough had a draw on the general fund balance of 5.6% of expenditures in fiscal 2018. Our assessment accounts for the fact that we expect budgetary results could improve from 2018 results in the near term.

The borough's only operating fund is its current fund; user charges largely support the water and sewer utility funds, and meter revenue supports the parking utility fund. More than 80% of Collingswood's revenues are from property taxes, which we believe lends stability to the rating.

Overall, the borough's operating performance trend has been strong, with surpluses since 2013. Management attributes this trend to miscellaneous revenues coming in above budget, cancelled budgetary appropriations, and close monitoring of expenses. In addition, the borough sold several properties in 2017 and 2018.

That said, in fiscal 2018 the borough drew just over $1 million from fund balance. The draw was due to a planned use of reserves for a pay-as-you-go road capital project, given very strong fund balance levels, and does not change our view of Collingswood's strong management and budgetary performance.

For fiscal 2019, we understand the borough expected to fully replenish appropriated surplus and generate an additional surplus that will be added to the fund balance.

Collingswood is budgeting for 2020 and we expect management will be able to balance increases in ongoing expenses, especially in light of ongoing labor contract discussions with police and firefighters, during our two-year outlook period.

Very strong budgetary flexibility

Collingswood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 15% of operating expenditures, or $2.8 million.

After increasing consistently since 2012, the borough's available fund balance declined for the first time in fiscal 2018 due to the planned use of reserves for the road-related capital project. Despite this drawdown, Collingswood's fund balance remained very strong and we expect the borough will add to the fund balance again.

Despite the planned draw, Collingswood is still complaint with its fund balance policy.

Very strong liquidity

In our opinion, Collingswood's liquidity is very strong, with total government available cash at 23.0% of total governmental fund expenditures and 1.2x governmental debt service in 2018. In our view, the borough has strong access to external liquidity if necessary.

The borough's strong access to external liquidity is supported by debt issuances (including GO bonds) during the past 20 years. Although the state allows for what we view as permissive investments, we believe Collingswood is not aggressive in its investments. The borough has consistently maintained very strong liquidity, which we expect will continue. It does not have any variable-rate or direct-purchase debt.

Very weak debt and contingent liability profile

In our view, Collingswood's debt and contingent liability profile is very weak. Total governmental fund debt service is 19.0% of total governmental fund expenditures, and net direct debt is 213.3% of total governmental fund revenue. More than 65% of Collingswood's direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Following this issuance, the borough has about $39.8 million in direct debt outstanding. Collingswood has a history of pre-paying debt service, and thus elevating debt service costs. We expect debt service carrying charges will remain manageable and at current levels. It is our understanding that with the construction of the new emergency response building, financed by this transaction, Collingswood does not have any additional major capital projects planned for which it plans to take on new debt in the coming years.

Pension and OPEB liabilities

Pension and OPEB highlights include the following:

- In our opinion, Collingswood's large pension and OPEB obligation, without a plan in place we think will sufficiently address the obligation, is a credit weakness. The largest pension plan is 57.9% funded.
- We view pension and OPEB liabilities as a credit weakness based on costs that, at almost 12% of expenditures, represent a large portion of the budget, coupled with our expectation costs will likely increase.
- Although funding policies somewhat mitigate or local governments the risk of escalating contributions due to low plan funding, Collingswood could face rising pension costs should the state not follow its schedule of increasing pension contributions.
- Furthermore, the borough funds OPEB liabilities on a pay-as-you-go basis, which, given claims volatility and medical cost and demographic trends, is likely to lead to rising costs. Although the borough has some legal flexibility to alter OPEB, it cannot prefund these costs, increasing the risk these benefits could create budgetary pressure.

As of June 30, 2018, Collingswood Borough participates in:

- New Jersey Police & Firemen's Retirement System, which is 57.91% funded, with a proportional share of the net pension liability equal to $17.6 million;
- New Jersey Public Employees' Retirement System, which is 40.45% funded, with a proportional share of the net pension liability equal to $15.4 million; and
- A defined-benefit health care plan that provides retiree health care until death that is 0% funded with an OPEB liability of about $23.6 million.

Collingswood's combined required pension and actual OPEB contribution totaled 11.9% of general fund expenditures in fiscal 2018: 6.6% represented required contributions to pension obligations and 5.3% represented OPEB payments. In 2009, the state allowed local employers to fund 50% of their actuarially determined contribution. The borough elected to defer a portion of its payment that year, and expects to pay off the remaining liability of $266,814.40 by 2027. It made its full annual required pension contribution in fiscal 2018. Contributions fell short of static funding and minimum funding progress partially due to poor assumptions and methodologies but also due to the state's continued underfunding of its portion of the actuarially determined contribution. The plans' 30-year, level-dollar, open-amortization schedule will result in slow-funding progress. In our view, an assumed long-term rate of return of 7.5% for both plans could lead to contribution volatility. (For more details and information on these risks, please see our report, titled "New Jersey Pension Funding: State Actions Reverberate At The Local Level," published Dec. 12, 2018.)

The borough also provides OPEB to eligible retirees. It contributes to the state health benefits program, a cost-sharing, multiple-employer, defined-benefit OPEB health care plan administered by the state. The borough's contribution to the plan in 2018 totaled $981,313.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our view of Collingswood's track record of consistently strong budgetary performance and access to the broader economy in the Philadelphia-Camden-Wilmington MSA and the Camden employment base, which we believe will continue to provide stability. As a result, we do not expect to change the rating during the two-year outlook horizon.

Upside scenario

Although we do not expect to do so during the two-year outlook period, we would consider raising the rating if the borough's economic indicators improved to levels commensurate with those of higher-rated peers holding all other factors equal.

Downside scenario

We could lower the rating if debt service, pension contributions, and OPEB expenses lead to weaker financial performance, especially if the borough uses reserves to bridge a structural imbalance between expenditures and revenues.

Ratings Detail (As Of February 13, 2020)		
Collingswood Boro GO		
Long Term Rating	AA-/Stable	Affirmed
Collingswood Boro GO (ASSURED GTY)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Collingswood Boro GO (MAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Collingswood Boro GO		
Long Term Rating	AA-/Stable	Affirmed
Collingswood Boro GO		
Long Term Rating	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.