

RatingsDirect®

Summary:

Verona Township, New Jersey; General Obligation; Note

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Credit Profile

US\$12.19 mil gen imp bn ds ser 2023 due 03/01/2053

<i>Long Term Rating</i>	AA/Stable	New
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US\$7.84 mil BANs dtd 10/25/2023 due 10/24/2024

<i>Short Term Rating</i>	SP-1+	New
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Verona Twp GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Verona Twp GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Verona Township, N.J.'s series 2023 roughly \$12.19 million general improvement bonds.
- S&P Global Ratings also assigned its 'SP-1+' short-term rating to the township's roughly \$7.9 million bond anticipation notes (BANs).
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the township's general obligation (GO) debt.
- The outlook on the long-term rating is stable.

Security

The township's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the series 2023 bonds and BANs and existing GO debt.

The short-term rating reflects our opinion of Verona's general creditworthiness and market-risk profile, which we consider low, reflecting our view of the township's strong legal authority to issue long-term debt to take out the BANs and its ongoing disclosure to market participants.

Officials intend to use BAN proceeds to fund certain capital ordinances and bond proceeds to finance outstanding BANs permanently.

Credit overview

Verona is a mature, suburban, and primarily residential township about 20 miles west of New York City. The township benefits from its participation in the New York City metropolitan statistical area (MSA), as reflected in strong economic fundamentals that support its creditworthiness.

In our view, tax revenue and conservative budgeting support balanced budgetary results and the maintenance of very high reserves, particularly for a New Jersey municipality. Reserves increased by about \$1 million, bringing total reserves to \$6.9 million. Management attributes the surplus to conservative budgeting and higher-than-expected miscellaneous revenue due to Federal Emergency Management Agency funds. The township's fiscal 2023 budget for its current fund is \$27 million, which uses \$3.6 million in surplus, in-line with previous fiscal years. Management expects balanced fiscal year-end results. We think Verona's strong finances and robust economy somewhat offset credit pressure created by sizable long-term liabilities.

After this series 2023 bond and BANs issuance, Verona has roughly \$52.9 million in debt outstanding, including \$16.8 million in BANs, due to uncertainty around permanent financing. We have excluded the BANs from amortization calculations, but we expect underlying debt metrics will likely improve somewhat as Verona works through its financing plans; however, we do not expect this to alter our overall view of its credit fundamentals. Verona also has sizable pension and other postemployment benefit (OPEB) liabilities compared with its budget and elevated carrying charges. (For more details, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.)

The long-term rating reflects our view of Verona's:

- Primarily residential base with direct access to the New York City MSA and several ongoing developments for market-rate and affordable housing;
- Standard financial-management policies, practices under our Financial Management Assessment (FMA) methodology--including its annually updated six-year capital plan, conservative budgeting, and consistent monitoring--and strong Institutional Framework score;
- Consistently positive operations due to conservative budgeting and higher collection of unexpected revenue, supporting, what we consider, very strong reserves--In addition, we expect liquidity will likely remain very strong; and
- Elevated fixed costs with large unfunded pension liabilities that will likely lead to escalating costs through participation in the state-administered New Jersey Police & Firemen's Retirement System, which is 71.4% funded, with a \$12 million proportionate share of the net pension liability as of June 30, 2021; the New Jersey Public Employees' Retirement System, which is 51.5% funded, with a \$9.9 million proportionate share of the net pension liability; and a large unfunded OPEB obligation, which is \$40.2 million funded on a pay-as-you-go basis.

Environmental, social, and governance

Governance factors have a moderately negative influence, reflecting oversight risk on the rating due to sizable long-term liabilities; however, much of funding control is at the state level. We consider environmental and social risks neutral in our credit analysis. Verona experienced flooding during Hurricane Ida. Officials report they have worked out a plan with Essex County to proactively lower the township's lake ahead of storm events, mitigating significant flooding risk.

Outlook

The stable outlook on the long-term rating reflects S&P Global Ratings' expectation that Verona will likely maintain stable operations, supported by a strong property tax base.

Downside scenario

We could lower the rating if financial performance were pressured by rising costs from long-term liabilities or any other unforeseen expenses.

Upside scenario

Although unlikely due to the size of the township's debt and pension liability profile and state funding policies, we could raise the rating if carrying charges were to moderate, coupled with the adoption of more-robust financial policies.

Verona Township, New Jersey key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (%) of U.S.	185.7			
Market value per capita (\$)	208,265			
Population		14,383	13,751	14,075
County unemployment rate(%)		4.5	8.0	
Market value (\$000)	2,995,516	2,706,033		
10 largest taxpayers as a % of taxable value	29.1			
Strong budgetary performance				
Operating fund result as a % of expenditures		4.3	2.7	1.0
Total governmental fund result as a % of expenditures		4.3	2.7	1.0
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures	27.6	24.0	24.0	21.1
Total available reserves (\$000)		6,901	5,815	4,907
Very strong liquidity				
Total government cash % of governmental fund expenditures		78.0	79.4	80.4
Total government cash % of governmental fund debt service		529.7	531.0	501.7
Adequate management				
Financial Management Assessment	Standard			
Very weak debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		15.0	15.0	16.0
Net direct debt as a % of governmental fund revenue	180.0			
Overall net debt as a % of market value	3.4			
Direct debt 10-year amortization (%)	45.7			
Required pension contribution as a % of governmental fund expenditures		6.8		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		4.0		
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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