

RatingsDirect®

Summary:

Verona Township, New Jersey; General Obligation

Primary Credit Analyst:

Tiffany Tribbitt, New York + 1 (212) 438 8218; Tiffany.Tribbitt@spglobal.com

Secondary Contact:

Michael Ryter, Chicago +1 312 233 7016; michael.ryter@spglobal.com

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Credit Profile

US\$5.986 mil GO bonds due 03/01/2043

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

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Verona Township (Verona), N.J.'s \$5.99 million general obligation (GO) bonds.
- At the same time, we affirmed our 'AA' long-term rating on Verona Township's GO debt outstanding.
- The outlook 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 secures the bonds.

The proceeds from the issuance will permanently finance various bond anticipation notes and provide new money for capital projects.

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 metropolitan area, as reflected in strong economic fundamentals that support its creditworthiness. Tax revenues combined with conservative budgeting practices support balanced budgetary results and maintenance of reserves at very high levels, particularly for a New Jersey municipality. The township did take advantage of deferring COVID-19 pandemic-related revenue losses to future budgets, and will recognize these losses through 2027, primarily in the pool utility fund. Verona also has about \$1 million remaining of the \$1.4 million received in ARPA funding, with a portion used for revenue loss. Officials have not yet determined how the funding will be used. The 2023 budget process is underway, with significant increases expected in health care and pension costs. Management reports it expects to absorb the costs within the budget without needing to exceed the state's levy limit, as it has in years past. Officials expect at least break-even results for fiscal 2022. We believe Verona's strong finances coupled with its robust economy somewhat offset the credit pressures created by sizable long-term liabilities.

A credit weakness for Verona, as it is for many N.J. municipalities, is its elevated pension and other postemployment benefit (OPEB) expenses. The township's proportionate share of the net pension liability is \$21.3 million and its net

OPEB liability is \$40.3 million, or almost 250% of 2021 current fund revenues. Although it is currently managing pension costs, in our opinion, the township has a limited ability to control liability growth. It funds OPEBs, according to state statute, on a pay-as-you-go basis, which--due to claims volatility and medical-cost and demographic trends--is likely to lead to short-term escalating costs. New Jersey does not allow townships to establish dedicated OPEB trusts. For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.

The township has \$14.4 million of planned capital spending over the next six years, a portion of which could be funded with bond proceeds, but plans are uncertain at this time. The township has a sizable amount of BANs outstanding after this issuance. Given uncertainty around permanent financing plans, we've excluded them from our amortization calculations but note we expect underlying debt metrics will improve somewhat as the township works through its financing plans, although we do not expect that to alter our overall view of credit fundamentals.

The rating further reflects our view of the township's:

- Strong wealth and income measures, which enable ample revenue-raising ability, despite recessionary pressures (See "U.S. Business Cycle Barometer: Constrained By Tight Monetary Policy And Global Slowdown," Jan. 25, 2023.);
- Standard financial management policies and practices, with budget monitoring and long-term capital planning in place, but limited other policies, as well as a strong Institutional Framework;
- Stable budgetary performance, with reserves and liquidity sustained at very strong levels; and
- Elevated long-term fixed costs stemming from a relatively high debt burden and poorly funded retirement liabilities.

Environmental, social, and governance

Governance factors have a moderately negative influence on the rating given the sizable long-term liabilities, although much of funding control is at the state level. We consider environmental and social risks neutral in our credit analysis. The township did experience flooding during Hurricane Ida. Officials report they've worked out a plan with the county to proactively lower the levels of the township's lake ahead of storm events, mitigating risks of significant flooding.

Outlook

The stable outlook reflects our expectation that Verona will maintain stable operations supported by the township's strong tax base.

Downside scenario

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

Upside scenario

Although unlikely given the size of the township's long-term liability profile and state funding policies, should long-term liabilities materially decrease, coupled with adoption of more robust financial policies, we could raise the rating.

Verona Township, New Jersey--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	186			
Market value per capita (\$)	217,840			
Population		13,751	14,075	14,302
County unemployment rate(%)		8.0		
Market value (\$000)	2,995,516	2,706,033		
Ten largest taxpayers % of taxable value	29.1			
Strong budgetary performance				
Operating fund result % of expenditures		2.7	1.0	(0.4)
Total governmental fund result % of expenditures		2.7	1.0	(0.4)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		24.0	21.1	18.7
Total available reserves (\$000)		5,815	4,907	4,314
Very strong liquidity				
Total government cash % of governmental fund expenditures		79	80	72
Total government cash % of governmental fund debt service		531	502	435
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		15.0	16.0	16.5
Net direct debt % of governmental fund revenue	189			
Overall net debt % of market value	3.5			
Direct debt 10-year amortization (%)	40			
Required pension contribution % of governmental fund expenditures		7.0		
OPEB actual contribution % of governmental fund expenditures		4.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- 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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