STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

Monroe Township (Gloucester County), New Jersey; General Obligation

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Credit Profile		
US$4.265 mil GO rfdg bnds ser 2015		
Long Term Rating	AA/Stable	New
Monroe Twp (Gloucester Cnty) GO		
Long Term Rating	AA/Stable	Affirmed
Monroe Twp (Gloucester Cnty) GO (FGIC) (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating and stable outlook to Monroe Township, N.J.'s series 2015 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA' rating, with a stable outlook, on the township's GO debt outstanding. The township's full faith and credit pledge secures the bonds. We understand that proceeds will be used to refund a portion of the township's debt outstanding to achieve present value savings.

The rating reflects our opinion of the township's:

- Adequate economy, which benefits from Philadelphia and Camden's broad and diverse metropolitan statistical area (MSA);
- Strong budgetary flexibility, as demonstrated by improved finances;
- Weak budgetary performance, with operating deficit projected in its current fund, which is also the total governmental funds;
- Very strong liquidity to cover debt service and expenditures;
- Adequate management conditions, with "standard" financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate debt and contingent liabilities with rising pension and other postemployment costs (OPEB); and
- Strong institutional framework.

Adequate economy

We view Monroe Township's local economy as adequate, with projected per capita effective buying income at 108% of the national average and per capita market value at about $68,400. The county unemployment rate in 2013 was 8.5%, which is above the state and national averages. The township is about 20 miles southeast of Philadelphia, which we consider a broad and diverse MSA. Most residents commute into Philadelphia and countywide for employment opportunities. The township had a reassessment in fiscal 2009, leading to a 9% decline in assessed value (AV). Management represented that AV has increased by 0.6% to $2.64 billion in 2015.

Weak budgetary performance

We consider Monroe Township's budgetary performance as weak overall, with a projection to end fiscal 2014 with an operating deficit of more than 1% in both the current fund and total governmental funds. The township had received several nonrecurring revenues in fiscal 2013, which resulted in 4.6% of operating surplus in both current and total governmental funds. The township will be adopting its 2015 budget at the end of March; preliminary assumption includes a fund balance appropriation of $2.8 million. Officials have plans to achieve savings with a health insurance plan and receive equity distribution from the state in 2016 to balance the budget. The savings on health insurance plans will be recurring.

Strong budgetary flexibility

In our view, Monroe Township's budgetary flexibility is strong with available reserves at 13.3% of operating expenditures in fiscal 2013. Based on management's projection of a current fund drawdown, the township's fund balance is projected to be at about 10% at fiscal year-end 2014. Council's goal is to maintain the fund balance at above 10% to weather any cash flow or emergency needs.

Very strong liquidity

We believe very strong liquidity supports Monroe Township's finances, with total government available cash at 22% of total government fund expenditures and at 3.1x debt service. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.

Adequate management

We consider the township's management conditions adequate, with standard financial practices under our FMA methodology, indicating the government, in our opinion, maintains adequate policies in some but not all key areas. Standard & Poor's revised the township's FMA to "standard" from "good" due to irregular reporting of investment holdings and earnings to management and the long-term financial forecast, which included only one-year of projections. Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions in the budgeting process, strong oversight in terms of monitoring progress against the budget during the year, and a long-term capital plan. The township does not have a debt management policy and has not been able to consistently adhere to its reserve policy.

Adequate debt and contingent liability

The township's debt and contingent liability profile is adequate, in our view. Total governmental fund debt service is 7.1% of total governmental funds expenditures and net direct debt is 38.7% of total governmental funds revenue. Approximately 77% of the debt is repaid over 10 years. Although the township guaranteed the municipal authority's debt, we understand that the debt is self-supporting by the authority, which we consider a credit strength. We view the issuer's pension and other postemployment benefits (OPEB) obligations as large and, in our opinion, this is a negative credit factor. The township has contributed 100% of its annual required pension contribution. The annual pension and OPEB costs account for 12% of the total government expenditures in fiscal 2013. Monroe Township's OPEB's pay-as-you-go growth rate had increased from 9% to 16% between fiscal years 2009 to 2011. We do not consider the township's current plan as sufficiently addressing the rising OPEB costs.

Strong institutional framework

We consider the Institutional Framework score for New Jersey municipalities strong.

Outlook

The stable outlook reflects our view of the township's very strong liquidity and strong flexibility, supported by an adequate economy. We could take a rating action if Monroe Township is unable to execute its plan to return to balanced fund operations in 2016 and beyond, coupled with significant decline in budgetary flexibility. While unlikely within the outlook time frame, an adoption of additional formalized management policies and practices, coupled with significant improvement in the current fund balance level and performance, could lead us to raise the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.