S&P Global
Ratings

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Summary:
Chesterfield Township, New Jersey; General Obligation

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Summary:

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Credit Profile		
US$6.365 mil GO bnds ser 2016 due 05/01/2046		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Chesterfield Township, N.J.'s series 2016 general obligation bonds. The outlook is stable.

The township's full faith and credit GO pledge secures the bonds. We understand bond proceeds will be used to fund the construction of a municipal building, including associated costs.

The rating reflects the township's:

- 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 methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating deficits in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 67% of operating expenditures;
- Very strong liquidity, with total government available cash at 138.4% of total governmental fund expenditures and 23.9x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 5.8% of expenditures and net direct debt that is 252% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Chesterfield Township's economy strong. The township, with an estimated population of 8,270, is located in Burlington County in the Philadelphia-Camden-Wilmington MSA, which we consider to be broad and diverse. The township has a projected per capita effective buying income of 90.9% of the national level and per capita market value of $87,856. Overall, the township's market value grew by 0.7% over the past year to $726.6 million in 2015. The county unemployment rate was 6.3% in 2014.

Chesterfield Township encompasses approximately 22 square miles in the northeastern section of Burlington County. The township, located 30 miles north of Philadelphia and 10 miles south of Trenton, contains three villages--Sykesville, Chesterfield, and Crosswicks. The township is adjacent to the New Jersey Turnpike, I-295, and state highway routes 130 and 206.

The township is approximately one-third farmland. In order to preserve its rural nature, the township uses funds generated through transfer development rights from one square mile of land called the "Planned Village District" (PVD), which is zoned for denser development, to support lower-density uses outside of the district. Planned development has supported strong population growth; census estimates show Chesterfield experienced population growth of nearly 30% between 2000 and 2010. The township expects 232 additional homes to be built over the next five years in the PVD, supporting growth in assessed values.

Adequate management

We view the township's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Management uses five years of trend data in analyzing revenues and expenditures, and presents 10 years of data to council in consideration of the budget. The township reports budget-to-actual results on a quarterly basis but the chief financial officer updates those results biweekly, and these figures can be requested by council. The township maintains informal, but detailed financial projections for the current year plus four subsequent years, which include realistic projections of expense growth for salaries, health, and pension costs.

The township follows state statute for capital planning purposes, presenting a three-year capital plan updated for each annual budget. The township also follows state guidelines regarding investment management and investment holdings and earnings are reported to council quarterly. The township does not maintain formal policies on debt management or reserves, but has historically maintained reserves at more than 50% of the subsequent year's budgeted expenditures.

Adequate budgetary performance

Chesterfield Township's budgetary performance is adequate in our opinion. The township had operating deficits of 7.1% of expenditures in the general fund and 7.1% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

In 2012, Chesterfield overrode the state tax levy cap in order to build sustained revenue support for future operations without drawing too deeply into the township's fund balance, as fees from development began to subside. The township used the bolstered fund balance to steadily increase the tax rate under the cap in 2013, 2014, and 2015, building up the tax rate to a sufficient level to sustain operations in 2016. The use of the fund balance is expected to give way to a tax rate of 26.3 mills in 2016, which management expects will fully support operations.

After the planned tax increase, the township drew down on fund balance for two years, in consideration of the large one-time impact on taxpayers, while expenditures were adjusted upward to service new developments. Unaudited results for 2015 show the property tax has risen to a level supporting increased expenditures, and the township estimates an operating surplus of $179,000 in that year. The township projects that increases in assessed values associated with the 232 new homes over the next five years will allow revenues to remain ahead of expenditures, which have leveled off.

The township's conservative budgeting has also consistently resulted in a higher-than-expected property tax revenues. In fiscal 2015, revenues from property taxes were budgeted for $1.64 million, but were recently estimated at $2.11

million. In fiscal 2016, the township has budgeted for $1.97 million in property taxes.

Very strong budgetary flexibility

Chesterfield Township's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 67% of operating expenditures, or $2.4 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The township maintains a very strong fund balance, supported by planned revenue increases in 2012 to meet anticipated service costs associated with increased development. Recent trends in revenue due to anticipated growth in assessed values should maintain pace with projected expenditure growth, lending stability to the township's financial flexibility.

Very strong liquidity

In our opinion, Chesterfield Township's liquidity is very strong, with total government available cash at 138.4% of total governmental fund expenditures and 23.9x governmental debt service in 2014. In our view, the township has strong access to external liquidity if necessary.

The borough has issued GO debt in the past five years. The township does not have privately placed debt or bank loans. We do not expect cash levels to change materially.

Chesterfield Township maintains funds in bank deposits and the New Jersey cash management fund, which we do not consider aggressive.

Very weak debt and contingent liability profile

In our view, Chesterfield Township's debt and contingent liability profile is very weak. Total governmental fund debt service is 5.8% of total governmental fund expenditures, and net direct debt is 252% of total governmental fund revenue.

The township does not expect to issue additional debt in the next two to three years.

The township participates in the state's Public Employees Retirement (PERS) and Police and Firemen's Retirement (PFRS) pension systems. The township's contribution in 2015 was $64,515 for PERS and $125,779 for PFRS. The township made 100% of required contributions. Based on Governmental Accounting Standards Board statement 68, the PERS plan reported a funding ratio of 42.74% for fiscal 2014. The township offers $2,500 per retiree in other postemployment benefits.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects the township's strong economy and very strong budget flexibility and liquidity. The township also maintains adequate budget performance and standard management policies and practices, which enhance rating stability. We do not expect to revise the rating in the next two years.

Upside scenario

We would consider an upgrade if the township's budget performance were to improve to a level associated with higher-rated peers and its debt and contingent liability burden moderated.

Downside scenario

We would consider lowering the rating if the township's financial performance deteriorated, resulting in weak budgetary flexibility and liquidity.

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings public website at www.standardandpoors.com. Use the Ratings search box located in the left column.