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Ratings

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Summary:

Englewood, New Jersey; General Obligation; Note

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Credit Profile		
US$10.932 mil BANs ser 2023 due 03/15/2024		
Short Term Rating	SP-1+	New
Englewood BANs		
Short Term Rating	SP-1+	Affirmed
Englewood BANs ser 2023 due 03/15/2024		
Short Term Rating	SP-1+	Affirmed
Englewood GO		
Long Term Rating	AA-/Positive	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Englewood, N.J.'s roughly $10.932 million series 2023 bond anticipation notes (BANs).
- S&P Global Ratings also affirmed its 'AA-' long-term rating on the city's existing general obligation (GO) debt and 'SP-1+' rating on its short-term debt outstanding.
- The outlook has been raised to positive from stable.
- The rating action reflects our view of the city's growth in reserves, which, if sustained in conjunction with formalized long-term planning practices, assuming all other credit factors remain consistent, could result in a one-in-three chance of a rating improvement.

Security

A full-faith-and-credit pledge, including an agreement to levy unlimited ad valorem taxes on all taxable property within city limits, secures the GO bonds and BANs.

Officials intend to use series 2023 BAN proceeds to refinance the series 2022 BANs.

The short-term rating on the BANs reflects our high investment-grade long-term rating and the city's low market-risk profile. In our view, and in accordance with our criteria, titled "Bond Anticipation Note Rating Methodology," published Aug. 31, 2011, on RatingsDirect, we assess market risk as low because of Englewood's strong market access, information availability, and takeout authorization.

Credit overview

With Englewood's largest employer (hospital) expanding, 550 new housing units awaiting approval, and plans for a downtown office building, management believes long-term infrastructure investments will help support its economic development without any necessary changes to the tax rate. However, we note signs of U.S. economic stress could affect the metropolitan statistical area (MSA) and city, and we currently assess U.S. recession risk out 12 months at

59%. For more information, please see "U.S. Business Cycle Barometer: Constrained By Tight Monetary Policy And Global Slowdown," published Jan. 25, 2023.

Management's deliberate efforts to increase its surplus have helped lead to $2.6 million in unexpended appropriations from previous years. Additionally, the city had unanticipated revenues from the new hospital contract, effective 2021, amounting to approximately $550,000, which will be annually received and is expected to increase 2% per year. These helped reserves grow $3 million (over 4% of expenditures) in fiscal 2021, and management expects another increase in fiscal 2022, to around $10-$11 million, as management builds individual trusts for various contingencies. As reserves have grown, the already strong liquidity position also increased by approximately 25%, to $19.3 million. Management anticipates updating the fund balance policy this month to increase the informal reserve target to $6-$8 million, from $4-$5 million, and there are no plans to spend down excess reserves. In addition to the $2.9 million in American Rescue Plan Act (ARPA) funds the city has received, management expects to issue approximately $10 million per year for infrastructure improvement projects, including road paving, drainage, and stormwater management investments.

We view pension and other postemployment benefits (OPEB) liabilities as a credit pressure for Englewood, similar to most New Jersey local governments, though the city has a reserve fund valued at $2.3 million in 2022 that continues to be built up and may help offset budgetary risks. Although the city handles retirement liability expenses, we expect costs will likely increase and be volatile.

Englewood funds OPEB liabilities on a pay-as-you-go basis, which, as a result of claims volatility and medical cost and demographic trends, is likely to lead to higher costs. While the city has some legal flexibility to alter OPEB, it cannot prefund these costs, increasing the risk that these benefits could create budgetary pressure.

Englewood participates in:

- New Jersey Police & Firemen's Retirement System (PFRS, as of June 30, 2021): 71% funded via 7% discount rate, with a share of the net pension liability equal to $58 million;
- New Jersey Public Employees' Retirement System (PERS, as of June 30, 2021): 52% funded via 7% discount rate, with a share of the net pension liability equal to $41 million; and
- Retiree medical plan (OPEB, as of June 30, 2021): 0.3% funded via 2.16% discount rate, with a net OPEB liability of $39 million.

Although Englewood funds 100% of actuarial recommendations, last year's contributions fell short of our minimum funding progress metric, indicating slow but forward funding progress, due primarily to weak amortization methods set by the plan. (For more details and information on these risks, see our report, titled "Pension Spotlight: New Jersey," published June 21, 2022.)

The rating reflects our view of the city's:

- Relatively affluent, residential economy and stable property tax base, with access to the New York City MSA;
- Standard financial management policies and practices under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas, with a strong institutional framework score;

- Positive financial performance, in line with consistently conservative budgeting and significantly growing reserves and liquidity; and
- Manageable debt, including approximately $10 million in expected annual new-money debt, in line with its new 10-year capital plan for infrastructure investment, with large pension and OPEB liabilities that are expected to improve over time as long as the state continues to fulfill its full contribution obligations.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks and view them as generally neutral within our credit analysis, though we view the state's governance of its pension plans and the lack of a mechanism to prefund OPEB as a weakness for New Jersey local governments.

Outlook

The positive outlook reflects our view that, along with implementation of planned updates to financial management procedures, the city will maintain balanced operations while paying down debt and building and maintaining its fund balance.

Downside scenario

If the city's flexibility doesn't meet expectations and management doesn't implement long-term planning, we would consider a negative rating action.

Upside scenario

We could raise the rating if management were to continue to improve reserve levels while strengthening financial management policies and procedures, including annual long-term financial planning and formal reserve targets, coupled with managing retirement costs.

Englewood--Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita EBI % of U.S.	142			
Market value per capita ($)		195,103		
Population		28,156	28,299	28,782
County unemployment rate (%)		6.0		
Market value ($000)		5,493,333	5,189,539	5,115,166
Ten largest taxpayers % of taxable value	7.4			
Strong budgetary performance				
Operating fund result % of expenditures		4.4	(0.4)	1.8
Total governmental fund result % of expenditures		4.4	(0.4)	0.9
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.3	8.0	8.6
Total available reserves ($000)		8,479	5,464	5,707

Englewood--Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
Very strong liquidity				
Total government cash % of governmental fund expenditures		28	23	20
Total government cash % of governmental fund debt service		301	234	189
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		9.3	9.7	10.5
Net direct debt % of governmental fund revenue	99			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	63			
Required pension contribution % of governmental fund expenditures		8.9		
OPEB actual contribution % of governmental fund expenditures		2.2		
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

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.