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Summary:

Hawthorne Borough, New Jersey; General Obligation

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Summary:

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Credit Profile

Hawthorne Boro GO

Long Term Rating

AA+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Hawthorne Borough, N.J.'s general obligation (GO) bonds to 'AA+' from 'AA', based on its local GO criteria published Sept. 12, 2013. The outlook is stable.

A pledge of the borough's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds.

The rating reflects our assessment of the following factors for the borough:

- We consider Hawthorne's economy very strong, with its projected per capita effective buying income at 136.6% of the U.S. and per capita market value of \$118,866. The borough serves a 2013 population of 18,987 and covers approximately 3.44 square miles in Passaic County in northern New Jersey. Also, supporting the borough's strong economy is its access and participation in the broad and diverse New York-Newark-Jersey City metropolitan statistical area. The county unemployment rate for calendar year 2013 was 9.9%, down from an 11% average over the prior three years. The borough is primarily residential with some commercial and light industrial activities. We view the tax base as diverse with the top 10 taxpayers accounting for 4.5% of assessed valuation (AV). AV has declined marginally since 2011 and is \$1.2 billion as of 2014. The borough is in the process of addressing tax appeals, which is not expected to have any material effect on the tax base and finances. According to management, there are housing developments under way and approvals for future developments. Market has averaged declines of about 4% since 2011 and totaled \$2.3 billion.
- In our opinion, the borough's budgetary flexibility remains strong, with reserves averaging over \$3 million or about 20% over the past three years. In fiscal 2013, reserves were \$3.9 million, or 21.6% of expenditures. The 2014 budget has utilized \$1.6 million of fund balance, with \$2.2 million or 10% of the budget remaining. This has been the borough's practice and, therefore, management is not expecting it to be used. We believe that given the track record, Hawthorne will maintain the previous levels.
- The borough's budgetary performance has remained strong, in our view, achieving near break-even and operating surpluses over the past several years. Fiscal 2013 closed with an operating surplus of \$476,000, or 2.6% of current fund expenditures. The fiscal 2014 budget totals \$20.1 million, a 2.9% increase over the prior year, and includes the use of surplus. However, the borough budgets very conservatively and based on year to date results is expects to replenish the utilized amount.
- Supporting the borough's finances is liquidity we consider very strong, with current fund available cash at 81.9% of expenditures and 688.9% of debt service. We believe the borough has strong access to external liquidity.
- We view Hawthorne's management conditions as strong, with "good" financial management practices under our

Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or regularly monitor all of them. Highlights include management's conservative budgeting practices that take into account historical trends, coupled with monthly budget monitoring and reports to the governing bodies. In addition, management has in place a formal four-year financial plan, a five-year and 10-year capital improvement plan that is updated annually. Also supporting the borough's financial stability are formal policies in place for investments and current fund surplus. Management's goal is to maintain its ending surplus balance at a minimum of 10% of the annual budget after the utilization of fund balance.

- In our opinion, the borough's debt and contingent liabilities profile is strong, net of adjustments, with current fund debt service at 11.9% of current fund expenditures and with net direct debt at 75.1% of current fund revenue. The adjustments that support the strong debt profile were the borough's overall net debt of 0.8% of market value and debt amortization which we view as rapid, with 85% of the total debt expected to be retired by 10 years. The borough anticipates issuing bond anticipation notes in the amount of \$1.8 million in 2015.
- The borough contributes to the state-administered pension plan and has contributed 100% of the annual required contribution in each of the past three years. The borough provides employer-paid postretirement medical benefits to retired employees on a pay as you go basis. In fiscal 2013 the combined costs totaled 6.7% of expenditures, which we believe is manageable.

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

Outlook

The stable outlook reflects our view of the borough's stable and very strong economy that benefits from its participation in the broad and diverse economies of the New York-Newark-Jersey City metropolitan area. It also reflects our view of the borough's strong management, supported by conservative budgeting practices and imbedded policies that have resulted in the historical maintenance of very strong to strong financial performance, budgetary flexibility, liquidity, and debt profile. As such, we do not expect to change the rating in the next two years.

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments

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