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Ratings

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Summary:

Belleville Township Board of Education, New Jersey; General Obligation

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Table Of Contents

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Credit Profile		
US$48.536 mil sch bnds ser 2018 due 03/01/2043		
Long Term Rating	A-/Stable	New
Underlying Rating for Credit Program	A-/Stable	New

Rationale

S&P Global Ratings has assigned its 'A-' rating to the Belleville Township Board of Education, N.J.'s series 2018 general obligation (GO) school bonds. The outlook is stable.

The district's full faith and credit pledge and its agreement to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. Bond proceeds will fund facilities upgrades at the district's nine school buildings. The New Jersey Fund for the Support of Free Public Schools provides additional security.

The rating reflects our assessment of the district's strengths, including its:

- Stable finances, which are steadily improving after significant weakness;
- Low-to-moderate debt burden, with limited additional debt plans; and
- Good to strong local economy that benefits from access to the broad and diverse New York City-Northern New Jersey metropolitan statistical area (MSA).

Somewhat offsetting these strengths are the district's low-to-adequate available reserves, including negative reserves on a GAAP basis, with limited ability to improve given state restrictions following the district's fiscal 2014 financial problems.

Finances

In fiscal 2014, a projected $3.6 million deficit led to state intervention in the district's financial operations. State actions included a deficit relief loan that advanced $4.16 million of the district's state aid, to be repaid over 10 years, as well as putting into place a state monitor that will oversee financial operations through fiscal 2024. Following this intervention, the district made significant changes to its leadership, including all members of the school board, and financial practices. Following its corrective action plan, it modified its administrative and purchasing procedures. Officials took steps to restore fiscal balance including right-sizing staffing needs, canceling a technology and security contract to secure better deals, and implementing better spending controls. These changes, as well as others, led to significant improvement in financial performance, including surplus results since fiscal 2015.

The district reported a surplus operating result of 1.2% of expenditures in 2017. It has what we view as adequate available cash, at 2.5% of total governmental funds. It has not needed to do cash flow borrowing in the past four fiscal years and does not use the state's bridge loan borrowing program to meet needs until it receives its delayed state aid payment. The district's available fund balance of negative $953,000 is low in our view, at negative 1.3% of general fund expenditures at fiscal year-end (June 30) 2017. Including the final state-aid payment of nearly $2.9 million that the district is unable to recognize under generally accepted accounting principles (GAAP), the available fund balance was 2.7% of expenditures, which we view as adequate. Until the district repays its state aid advance loan, the state limits its unassigned fund balances at 1.5% of expenditures on a budgetary basis. Therefore, we expect the district's reserves will remain low on a GAAP basis in the near term. Given these restrictions, the district maintains restricted reserves for capital and maintenance, which it would use first for qualifying expenditures. Including these reserves, its total fund balance was $3.5 million on a budgetary basis, which we view as a good 4.8% of expenditures. In the past three fiscal years, the district has built these reserves by transferring any surplus results to these funds, as approved by the state monitor and authorized by the board.

Officials report that fiscal 2018 is again trending positively, with projections to realize a $3.2 million surplus after including delayed state aid. This is in part due to the continued fiscal controls that are keeping expenditures below budgeted amounts, but also to increased state aid the district received after establishing its budget. It decided to apply these additional revenues to increasing its total reserves. Therefore, the district is expecting to increase its total reserves on a budgetary basis to $5.8 million at fiscal year-end 2018, or about 8% of expenditures. It does not plan to spend down these reserves in the near term. Given the changes since fiscal 2014, we anticipate the district's finances will be stable, with slow-but-steady growth to its total reserves. We do not anticipate our view of available reserves will improve until the district is able to repay its state aid advance loan, allowing restrictions on unassigned reserves to increase. Overall, we believe it remains financially vulnerable to any sudden changes in state aid awards or unforeseen budgetary pressures; however, given its demonstrated ability to recover financially from its past challenges, we do not anticipate the district's financial position will deteriorate in the near term.

The district depends primarily on property taxes for general fund revenue (52.4%), followed by state aid (46.8%). New Jersey law guarantees the district 100% of its property tax levy, which we believe helps stabilize district revenues. State aid for New Jersey school districts is distributed by a weighted school funding formula that consists of several factors. The funding formula identifies a base cost associated with an elementary student, then factors in any special need costs. It is adjusted as the student moves through school. The formula also includes several other funding mechanisms, primarily the Adequacy Budget, a wealth equalized budget based on the school district's property and personal income wealth. Total state aid comes further from the Adequacy Budget. In addition, since fiscal 2014, New Jersey has used a modified funding methodology to determine school aid because of its inability to fully fund the statutory requirement. For these reasons, we believe that changes to enrollment in the near term are unlikely to have a significant impact on state aid receipts. In 2018, enrollment came in at 4,495 students. After years of declining enrollments, fiscal 2018 saw a slight uptick in enrollments. Officials are evaluating how residential projects under construction will affect enrollment in the near term.

Economy

Located about 10 miles from New York City, Belleville Township Board of Education provides pre-kindergarten through 12th-grade education for an estimated population of 36,229. The district benefits from access to the broad and diverse New York City-Northern New Jersey MSA, which contributes to what we consider strong median household effective buying income (EBI) at 111% of the national level, and good per capita EBI at 97%. The district's total $2.7 billion market value in 2018 is strong, in our view, at $75,062 per capita. Assessed value declined 0.4% since 2015 to $2.7 billion in 2017, the most recent year available. The township is conducting a revaluation, which should be complete by January 2019. About 5.7% of assessed value comes from the 10 largest taxpayers, representing a very diverse tax base, in our opinion. Officials report several development projects that should lead to increased market values. These projects include several residential projects, projected to bring about 780 additional units of housing to the township. Others will be mixed-use properties. Officials expect some of these projects to receive payments in lieu of taxes agreements, which limits the property tax revenue the district will receive from the projects. Overall, given the regional recovery from the recession, we expect the district's local economy will remain at least stable, and could expand as these projects are completed.

Management

We consider the district's management practices standard under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all key areas.

Specifically, management looks back at two to three years of historical trends to build its revenue and expenditure assumptions. It consults regional resources for guidance on state aid trends. The district provides monthly budget-to-actual reports to the school board and can amend the budget in accordance with state rules and approval of its fiscal monitor. While it does not have a formal rolling capital improvement plan, the district updates its long-range facilities plan as required by the state. It has a formally adopted cash management plan that governs investments and includes reporting on holdings and earnings in its monthly board reports. It does not have a formal long-term financial plan, or policies for debt management or reserves beyond state limitations.

Debt

As a percentage of market value, we consider overall net debt low, at 2.8%, and moderate per capita at $2,088. Amortization is slower than average, with 37% of direct debt scheduled to be retired within 10 years. We have included this issue in our analysis. Although the district anticipates receiving state aid for up to 49.75% of its debt service, this aid is subject to appropriation and the state has prorated its awards in recent years, reducing the amount districts receive. Debt service carrying charges were 2.6% of total governmental fund expenditures excluding capital outlay in fiscal 2017, which we consider low. We expect debt service to increase to about 4% in fiscal 2020 given this issue's structure, which is due to the timing of delayed state aid. Following that one-year increase, debt service is projected to return to about 2.5% of expenditures. Following this issue, the district does not anticipate any additional debt plans. Given this, we do not expect our view of its debt profile to materially change in the near term.

Pension and other postemployment benefit liabilities

In fiscal 2017, the district paid its full required contribution of $636,000, or 0.8% of total governmental expenditures, toward its pension obligations. It participates in cost-sharing multiple-employer pension plans: the Teachers' Pension and Annuity Fund (TPAF) and the Public Employees Retirement System (PERS) as defined by the Governmental Accounting Standards Board (GASB). TPAF has a special funding situation with New Jersey, whereby the state makes all payments to the plan on behalf of local employers. The majority of the district's employees are members of TPAF. Both TPAF and PERS are significantly underfunded, in our view. The plan fiduciary net position as a percent of the total pension liability, as defined in GASB Statement No. 67, was 22.33% for TPAF and 31.20% for PERS as of June 30,

2016. Under current funding assumptions, TPAF is projected to be exhausted by 2029, and PERS by 2034. While the district's pension and other postemployment benefits costs are limited to the minimal costs associated with its employees in PERS, we believe the state's continued pension-funding problems could create budgetary pressure for the district, particularly if New Jersey moves away from fully supporting TPAF. In addition, recent changes to plan assumptions, including lowering the PERS discount rate, will increase the district's contributions, although we do not anticipate it will have a material effect on our view of the district's pension liabilities.

Outlook

The stable outlook reflects our expectation that the district will maintain balanced operations and continue to grow total reserves. We expect the local economy to continue to support district operations, and for the district's state aid to remain consistent. Therefore, we do not expect to raise or lower our rating during the two-year outlook horizon.

Upside scenario

While we do not expect it within our outlook horizon given state restrictions, should the district increase its available reserves to at least adequate levels on a GAAP basis, holding all other credit factors equal, we could raise the rating.

Downside scenario

Should the district return to a structural imbalance, deteriorating total reserves or needing additional state aid advance loans, we could lower the rating.

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