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Summary:

Pennsville Township Board of Education, New Jersey; School State Program

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Credit Profile		
US$20.9 mil sch bnds ser 2016		
Long Term Rating	A+/Stable	New
Underlying Rating for Credit Program	A+/Stable	New

Rationale

Standard & Poor's Rating Services has assigned its 'A+' long-term rating and underlying credit rating for school program to Pennsville Township Board of Education, N.J.'s 2016 school bonds. The outlook is stable.

The 'A+' rating reflects our view of the district's:

- Stable local economy with good incomes, coupled with access to and participation in the Philadelphia-Camden-Wilmington metropolitan statistical area (MSA) employment base;
- Adequate available fund balance on a GAAP basis of accounting; and
- Moderate debt profile, as a result of overlapping debt figures with limited capital needs.

The above mentioned strengthens are offset by the district's wealth and incomes, that we view as below average compared to higher rated peers.

The bonds are secured by the full faith and credit pledge of ad valorem taxes levied on the real property in the district without limitation as to rate or amount. The bonds are also supported by the New Jersey Fund for Support of Free Public Schools (A/Stable). Bond proceeds will be used for various capital projects throughout the district.

The Pennsville Township Board of Education is coterminous with Pennsville Township and serves a population of 13,221 in southern New Jersey's Salem County. The township is about 40 minutes outside Philadelphia with access to the diverse employment base in the Philadelphia-Camden-Wilmington MSA. The district has five schools and serves students from grades pre-K-12. Enrollment has decreased about 12% over the last five years to fiscal 2015's 1,790. Management expects it to remain around 1,800 for the upcoming two years.

The district's tax base is what we consider strong. The township is primarily residential, but has a commercial and industrial component. It is expecting limited commercial development in the future. Market value has seen steady decreases since 2011 to fiscal 2015's $1 billion valuation. The assessed value of the district has followed the same trend, albeit not at the same rate, to $1.07 billion. Market value per capita is a strong $89,226. The district's top ten taxpayers are a diverse 19.9% of the tax base. In addition to the strong tax base indicators, the district's income levels, measured on a median household and per capita effective buying income basis, are a good 99% and 97% of the U.S., respectively. The Salem County unemployment level in 2015 was 6.0%, slightly below the state's 6.6% rate.

Historically, the district has performed well, adding to fund balance in three of the last four years. The district historically has budgeted conservatively. Its 2014 draw on fund balance was a result of capital projects. In fiscal 2015, it ended with a large surplus, almost replenishing the fund balances used in the previous year. Management attributes the significant surplus to its conservative budgeting practice and switching health care providers from the state plan to a private provider. Therefore, its available reserve, consisting of assigned and unassigned fund balance, was $1 million or an adequate 3.4% of expenditures on a GAAP basis of accounting. However, the district did have a negative unassigned fund balance position as a direct result of the two delayed state aid payments that all New Jersey school districts face. The district's inability to recognize delayed state aid payments has resulted in its thin available reserves. However, on a budgetary basis, when including $831,607 in delayed state aid, the unassigned fund balance improves to $442,000 or 1.4% of expenditures, in line with state mandate. The district is mandated by the state to maintain the unassigned fund balance at 2% of budget, which it has historically done. On a budgetary basis, including the district's delayed state aid payment, total fund balance improves to $1.8 million or 6.1% of expenses, a level we consider good.

The district passed its 2016 budget earlier this year; it includes the use of about $650,000 in budgeted fund balance, which is slightly higher than previous the previous year. We expect that the district will replenish its budgeted fund balance at year-end as a result of its budgetary practices and continued savings in health care costs. The district is within the 2% tax level cap. Its primary source of revenue is property taxes at 61%, followed by state aid at 37.1%. The district is in the process of budgeting for fiscal 2017. Historically, it has not had any debt, choosing to pay for capital projects on a pay-as-you-go basis. With this new issue, the district is expecting to alleviate the need to use fund balance for capital expenditures.

We consider the board's financial management practices "standard" under our financial management assessment methodology. The board compiles its budget annually, using employee contracts and three years of historical data. Budget monitoring is what we consider sound, with detailed line-item reports provided to the board monthly. Investment holdings follow state guidelines and are reported annually, the district's more liquid investments are reported monthly to the board. The board maintains a five-year long-range facilities plan that is updated every five years, and also maintains a facilities plan that it reviews each year. The board follows state guidelines for debt management and reserve policies.

The district's debt burden is what we would consider moderate. Its overall net debt per capita is moderate at $2,762, or 3.1% of market value. This figure mainly reflects the district's overlapping debt figures, as it has limited direct debt outstanding. The district's carrying charges are low at 0.9% of total expenses. As this is the district's first multimillion-dollar debt issue, we expect carrying charges to increase, but not to a level we would consider a negative credit factor. The district's expected amortization for the new issue is average at 50% in the next ten years, with 100% in the next 20. The district is exploring additional debt plans depending on an approval of a bond referendum, which was previously voted on with a tie and no majority either way. If the district were to receive approval, it would be for an additional $15.4 million, which we feel would not significantly change its debt figures.

The district participates in the state-administered Public Employees' Retirement System and Teachers' Pension and Annuity Fund (TPAF). Under the current statute, all employer contributions to the TPAF are made by New Jersey on behalf of the district. The district contributed about $264,000 in fiscal 2015, which represents 0.8% of total government expenditures for fiscal 2015.

Outlook

The stable outlook reflects our expectation that the rating will not change over the two-year outlook horizon. We expect the district to maintain its current total reserves. The expectation of the maintenance of reserves is supported by the district's budgeting practices, savings in health care costs, and a reduced capital budget. We also do not expect major changes in the district's economic indicators.

Upside scenario

A higher rating is possible if reserves were to increase and be sustained at a higher level and wealth and income levels were to improve.

Downside scenario

A lower rating is possible if total reserves fall to a level we would consider adequate as a percentage of expenditures.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.