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Summary:

Ventnor City, New Jersey; General Obligation; School State Program

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Table Of Contents

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Credit Profile		
US$13.18 mil GO Bnds ser 2019 due 09/01/2032		
Long Term Rating	AA/Stable	New
Ventnor City gen imp rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
Ventnor City GO		
Long Term Rating	AA/Stable	Upgraded
Unenhanced Rating	NR(SPUR)	Current
Underlying Rating for Credit Program	AA/Stable	Upgraded
Ventnor City GO		
Long Term Rating	AA/Stable	Upgraded
Ventnor City SCHSTPR		
Long Term Rating	AA/Stable	Upgraded
Underlying Rating for Credit Program	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating and underlying rating to 'AA' from 'AA-' on Ventnor City, N.J.'s general obligation (GO) bonds outstanding. At the same time, S&P Global Ratings assigned its 'AA' long-term rating to the city's series 2019 GO bonds. The outlook is stable.

Security and use of proceeds

Securing the debt service on the bonds and GO debt outstanding is the city's full faith and credit and agreement to levy ad valorem property taxes, without limitation as to rate or amount. The New Jersey Fund for the Support of Free Public Schools provides additional security for various GO school bonds. Bond proceeds will permanently finance bond anticipation notes outstanding previously issued for general and utility projects as well as provide about $7.3 million in additional funding for various capital improvements.

Credit overview

The rating action primarily reflects our view of management's enhanced financial planning and forecasting that have led to improved budgetary balance and healthier reserves, which provide greater cushion to absorb unexpected costs, particularly relative to environmental risks associated with the city's coastal location. Although our view of the rating has holistically improved, we believe the rating is constrained by high long-term liabilities (with pension and other postemployment benefit [OPEB] unfunded amounts equal to in excess of $70 million) and economic metrics that remain below those of higher-rated entities.

The rating further reflects our view of the city's:

- Strong economy, with market value per capita of $208,326 and projected per capita effective buying income at 112% of the national level;
- Strong management, with good financial policies and practices under our financial management assessment methodology;
- Strong budgetary performance, with an operating surplus in the general fund in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 26.9% of general fund expenditures and 3.7x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 85.8% of general fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 74.3% of debt scheduled to be retired in 10 years, but a large pension and OPEB obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider Ventnor City's economy strong. The city, with an estimated population of 9,750, is located in Atlantic County. The city has a projected per capita effective buying income of 112% of the national level and per capita market value of $208,326. Overall, the city's market value fell by 6.6% to $2 billion in 2018. The county unemployment rate was 5.9%.

Located on the 8.1-mile-long Absecon Island, Ventnor is a seaside community southwest of Atlantic City and 57 miles from Philadelphia. Primarily residential, the city's tax base has grown as older homes are redeveloped and renovated, increasing the ratable base. Although some softening occurred following the contraction of the casino industry in Atlantic City, the revaluation implemented for 2017 stemmed tax appeals and stabilized the tax base. In addition, new restaurants opened within Ventnor with the allocation of two of its three liquor license permits. A third license remains, and will likely lead to another establishment over the next 12 to 18 months.

Since Superstorm Sandy, the city has undertaken various efforts to protect its tax base from significant weather events and flooding. Ventnor is leading a regional master plan project covering communities within Atlantic County to implement a unified approach to resiliency as well as future land use options. Furthermore, in conjunction with state and federal funding, Ventnor replaced pump stations to alleviate flooding, increased the minimum bulkhead height, and mandated additional elevation for home renovation and construction. We believe that the city's approach to ensuring its tax base and infrastructure is protected against environmental risks will help maintain the city's strong economy when coupled with development underway.

Strong management

Our view of the city's financial management assessment improved to good from adequate given management's undertaking of resiliency efforts to protect the community from severe weather events as well as its approach to hardening its computer systems and infrastructure from cybersecurity attacks. In addition, the city is required by state statute to produce a six-year capital plan along with its operating budget, but we believe longer-term projections of debt service expenditures that accompany the plan enhance our view of the city's capital planning.

Management reviews three to five years of revenue and expenditures when formulating the upcoming year's budget, while maintaining a five-year budget forecast and surplus projection. Regular monitoring of the budget results in monthly budget-to-actual reports to the governing body with budget amendments on an as-needed basis. Ventnor annually adopts its cash management plan that governs its investment decisions while reporting investment information annually, usually because the city lacks investments other than those in interest bearing bank accounts. The city participates in a joint insurance plan that requires training of all employees for cybersecurity risks. Furthermore, the insurance coverage provides reimbursement for financial liabilities related to potential data breaches or ransomware attacks. It also maintains a shared service agreement with Atlantic County to provide enhanced technology infrastructure as well as help desk assistance. Although the city does not maintain formal policies with regard to debt management or maintenance of reserves, management adheres to an informal target of reserves equal to $1.5 million and a practice that ensures that its surplus appropriation is regenerated at year end.

Strong budgetary performance

Ventnor City's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 3.0% of expenditures in fiscal 2018.

Ventnor's financial operations are primarily funded by property taxes (about 72%), local revenue and state aid (10%), and the city's surplus appropriation (8.4%). Total tax collections have improved to 97.8% despite the city's conservative estimate in the budget to collect 95.8%. The difference between the actual and budgeted collection rate provides cushion to fully regenerate the surplus appropriation or provide flexibility to cover tax appeal settlements should they occur.

A new administration took office in 2016, following adoption of the fiscal 2016 budget. This followed a period in which the city's fund balance appropriation was not fully regenerated, leading to a mismatch between revenue and appropriations, particularly as a result of tax appeal settlements that were curtailed once the revaluation occurred in 2017. Resulting from a more conservative approach to budgeting and improved financial forecasting, fiscal years 2017 and 2018 ended with favorable results and improved budgetary performance. Furthermore, the new administration settled its public safety contracts through Dec. 31, 2020, at the same time reducing accumulated absence payouts, increasing salary steps, and requiring the highest level of employee contributions towards health care coverage allowed under state statute.

The fiscal 2019 budget totals approximately $31.3 million (about 0.5% higher than in the previous year), primarily reflecting an increase in costs associated with pension contributions (12% higher) but offset by growth in property taxes (0.2% higher), miscellaneous local revenue (15.7% higher), and the surplus appropriation (14.4% higher). Although the surplus appropriation is increasing to $2.63 million from $2.3 million in the prior year, management does not appropriate more than it reasonably expects to regenerate to ensure the fund balance remains stable. As a result of this conservative approach, we believe the city's budgetary performance will remain strong over the two-year outlook period.

Very strong budgetary flexibility

Ventnor City's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 16% of operating expenditures, or $4.6 million.

The city's fund balance grew more than 50% to $4.6 million from fiscal 2016 to Dec. 31, 2018. Officials do not anticipate utilizing reserves and believe the higher reserve provides flexibility to absorb unanticipated expenditures or costs associated with weather events. The city's flexibility is bolstered by its banked levy capacity available for future budgets of $1.9 million (8.4% of current levy), which allows the city to raise its tax levy above the 2% cap, if necessary, to cover expenditures. Furthermore, although the city reduced its accumulated absence payout threshold, it also maintains about $400,000 in a trust fund that could be allocated to payouts in the event of unexpected retirements. We believe the city's improved flexibility as a percentage of its budget will continue during the next two years given management's conservative budgeting and practice of not appropriating surplus in excess of what amount could reasonably be regenerated.

Very strong liquidity

In our opinion, Ventnor City's liquidity is very strong, with total government available cash at 26.9% of general fund expenditures and 3.7x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary given its regular issuance of GO bonds over the past 20 years.

The city does not maintain investments and generally invests its cash balances in interest-bearing bank accounts. In addition, the city has no direct purchase agreements with a single financial institution or pending lawsuits that would create a contingent liquidity risk. As a result, we expect the city's liquidity to remain very strong.

Adequate debt and contingent liability profile

In our view, Ventnor City's debt and contingent liability profile is adequate. Debt service is 7.2% of general fund expenditures, and net direct debt is 85.8% of general fund revenue. Overall net debt is low at 2.0% of market value, and approximately 74.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. Offsetting our view of the positive debt factors is Ventnor's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation given the state's prohibition on prefunding OPEBs.

Following the current transaction, the city's net direct debt outstanding is about $27 million, excluding GO debt supported by utility user fees, which we calculate at nearly $13 million. We believe the city's debt position will remain manageable during the outlook period with subsequent transactions planned for 2023 (approximately $7 million) and 2025 (approximately $14 million). With the city's brisk rate of principal repayment, we would not expect the additional debt to materially affect the debt profile.

Ventnor City's required pension and actual OPEB contributions totaled 12.4% of general fund expenditures in 2018, with 9.4% representing required contributions to pension obligations and 2.9% representing OPEB payments. The city made its full annual required pension contribution in 2018 as required by state law. The funded ratio of the largest pension plan is 57.9%.

The city participates in the cost-sharing, multiple-employer Police and Fireman's Retirement System (PFRS) and Public Employees' Retirement System (PERS) pension plans. The reported plan fiduciary net position as a percentage of the total pension liability was 57.91% for PFRS and 40.45% for PERS as of June 30, 2018. While funding policies somewhat mitigate the risks for local governments of escalating contributions as a result of low plan funded ratios, Ventnor could face escalating pension costs should the state not follow its schedule of increasing pension contributions. For more information on these risks, see our report "New Jersey Pension Funding: State Actions Reverberate At The Local Level," published Dec. 12, 2018 on RatingsDirect.

The city's proportionate share of the liability was about $11.4 million for the PERS and $33.8 million for PFRS as of Dec. 31, 2018. Although the city is managing these costs, particularly given its ability to exclude contributions from the property tax cap calculation and with banked levy capacity available to offset higher contribution requirements, it has little control over increases implemented by the state. We believe the state will continue requiring higher contributions of local governments, which could create budgetary pressure for Ventnor over the longer term.

The city provides OPEBs to eligible retirees and covered dependents through the state health benefits plan. The plan provides medical and prescription drug benefit coverage to retirees and their dependents. The unfunded actuarial accrued liability for the city's OPEBs as of Dec. 31, 2018 was $28 million and the required contribution was $847,000, which the city funds on a pay-as-you-go basis. New Jersey does not provide for a mechanism that allows for prefunding, limiting the city's ability to offset the liability with trust fund assets.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our view of the city's enhanced forecasting and financial planning that we believe indicate the management's team commitment to ensuring the city's strong financial performance over the long term. Although the city's economy remains exposed to the casino industry, we do not believe a material change to this industry will negatively affect the city's strong economy given some redevelopment efforts underway. As a result, we do not expect to change our outlook over our two-year outlook horizon.

Upside scenario

We could raise the rating if economic diversity continues leading to higher wealth and income metrics, while all other credit factors remain stable or improve.

Downside scenario

We could lower the rating if the trend of better budgetary performance and increased flexibility reverses course, particularly if costs associated with long-term liabilities create financial pressure leading to budgetary imbalances.

Related Research

2018 Update Of Institutional Framework For U.S. Local Governments 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.