

## Fitch Rates Collingswood Borough, New Jersey's GOs 'A+'; Outlook Stable

Written by Australian Business

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NEW YORK--( [BUSINESS WIRE](#) )--Fitch Ratings has assigned a rating of 'A+' to the following general obligation (GO) bonds for the Borough of Collingswood, New Jersey (the borough):

--\$3,500,000 taxable GO bonds, series 2014.

The bonds will be sold on a competitive basis on April 15. Proceeds will be used to repay outstanding notes and permanently finance the costs of certain demolition and infrastructure improvements associated with the Lumberyards redevelopment project. The bonds have a scheduled final maturity of Feb. 15, 2024.

The Rating Outlook is Stable.

### SECURITY

The bonds are secured by the borough's full faith and credit and the levy of ad valorem taxes upon all taxable real property in the borough without limitation as to rate or amount.

### KEY RATING DRIVERS

**STABLE OPERATING PROFILE:** Results from operations are structurally balanced. Revenues are predominantly derived from a stable residential property tax base. The borough has modest revenue raising capacity given limitations imposed under state law with respect to property tax levy growth.

**ADEQUATE RESERVE LEVELS:** Reserve levels are maintained within a policy requirement of 5% to 10% of spending which Fitch views as offering some, but not

significant, cushion against unforeseen expenses or budgetary pressures.

**PROXIMITY TO PHILADELPHIA:** The borough's economic assessment benefits from its convenient access to Philadelphia, an important regional economic center albeit one with modest growth expectations. Borough income metrics are favorable to the region.

**HIGH DEBT; GROWING PENSION COSTS:** Key debt metrics are considered high by Fitch as are carrying costs associated with debt service, pension, and other post-employment benefits (OPEB).

**AGGRESSIVE DEBT STRUCTURE:** The borough has engaged in various redevelopment projects to stimulate economic investment. This has contributed to a debt profile with an above-average amount of short-term indebtedness and risk to capital market access.

## RATING SENSITIVITIES

**CHANGE IN FINANCIAL POSITION:** The borough's financial position is expected to remain adequate for the 'A' rating category. An unforeseen reduction in reserves, in support of operating costs or for non-recurring measures, could pressure the rating. Dilution of balance sheet strength could also heighten risk associated with the borough's debt burden and structure.

## CREDIT PROFILE

Collingswood Borough is located in Camden County in southern New Jersey, approximately seven miles east of Philadelphia and 35 southwest of Trenton. The borough has an estimated 2012 population of 13,869.

## MATURE RESIDENTIAL TAX BASE; AVERAGE INCOME METRICS

Collingswood Borough is a commuter community with a tax base nearly 90% comprised of residential/apartment properties. There are no significantly sized commercial/industrial taxpayers or employers within the borough.

Residential properties continue to show positive growth according to Zillow and Trulia but remain about 10% below their pre-recession valuation. The borough's 2013 assessed valuation of \$1.07 billion is essentially unchanged from 2008. The borough is fairly developed - less than 1% of its tax base is classified as vacant land.

Borough residents exhibit a high level of educational attainment and key income metrics that are equal to or exceed those of the county, the metropolitan statistical area (MSA), and the U.S. (but trail those of the fairly wealthy state).

#### PROXIMITY TO PHILADELPHIA VIEWED FAVORABLY

The borough's participation in the Philadelphia-Camden-Wilmington MSA helps offset risk typically associated with a small or limited economic base. Philadelphia remains an important center for healthcare and higher education, with good prospects for long-term economic stability. High speed commuter rail service is provided from Collingswood to the Philadelphia downtown area by the Port Authority Transit Corporation (PATCO). PATCO also provides connections to NJ Transit and Amtrak bus service.

County and MSA recessionary job losses were similar to the nation, but the recovery has proven more volatile and less robust. Declines in labor force have largely enabled the December unemployment rate for the county (7.4%) and MSA (6.4%) to show improvement from the prior year. Global Insight forecasts a rather lackluster 1.45% average annual rate of job growth for the MSA from 2014-2018.

#### AGGRESSIVE DEBT STRUCTURE

Over time the borough has played an active role in a variety of redevelopment projects aimed at improving facilities and increasing taxable value. The largest one of these projects involves a 104-unit condominium project known as the Lumberyards to transform a long shuttered lumberyard adjacent to the borough's main street. In 2006, the borough agreed to guaranty \$4.5 million of an \$18 million bank loan to the developer. The project stalled during the recession leading the borough to issue a one-year \$5.1 million note to cover its guaranty on the construction loan. The borough also issued a one-year note for \$4.5 million for demolition and infrastructure improvements for the project.

The borough has sold roll-over notes from September 2011 through April 2013 despite having a non-investment grade public rating for a short period of time. This demonstrated market access is viewed positively. However, there is still concern over the borough's ability to address an unforeseen market disruption given the scope of balance sheet and operating resources. The outstanding balance of notes related to the project is \$9.4 million, whereas as of Dec. 31, 2012 cash held in the current fund, utility funds and parking fund totaled \$2.4 million. Additionally, the operating budgets for these funds combined are less than \$20 million.

### REPAYMENT AND PERMANENT FINANCING OF SHORT-TERM NOTES

Importantly, the borough plans to pay down \$2 million of a note due April 28, with \$1.753 million held in escrow from the sale of nine condominium units it acquired as part of the construction loan settlement agreement and a \$247,000 appropriation of borough funds. Following the current issuance the balance of outstanding one-year notes related to the project would be reduced to a more tenable \$3.9 million.

### HIGH DEBT BURDEN

The borough's overall debt burden (inclusive of the borough's share of overlapping county and school debt) is considered high by Fitch at 6.8% of market value or \$5,253 per capita. Debt incurred for the Lumberyards project accounts for 26% of the borough's direct debt and 13% of its overall burden.

The borough participates in the Public Employees Retirement System (PERS) and

Police and Fireman's Retirement System (PFRS) administered by the state. Funding levels are weak at 58% for PERS and 68% for PFRS (as of July 1, 2012, adjusted by Fitch to assume a 7% rate of return). The borough's OPEB liability is \$33.2 million or 3.1% of market value.

### SATISFACTORY FUND BALANCE POSITION

The borough adopted a reserve policy in 2012 that requires a fund balance in the current fund (or general fund) between 5% and 10% of the prior year's budgeted appropriations. As of Dec. 31, 2012, reserves totaled \$884,812 or 5.8% of spending. Unaudited results for 2013 depict a \$477,156 surplus from operations, and an estimated year-end fund balance equal to \$1.2 million or 7.5% of spending. The proposed 2014 budget represents an increase of 1.3% from last year, and appropriates \$206,570 of fund balance compared to \$149,508 in 2013.

### STABLE BUDGET BUT NOT WITHOUT CHALLENGES

Approximately 67% of the current fund budget is funded by property taxes (excluding the impact of revenue from non-recurring land sales). Current year tax collection rates have been excellent, equal to 99.4% or better each of the last five years.

There are potential challenges to revenue growth in the future as the borough is largely built-out. While the municipal tax rate of \$3.089 is generally considered competitive within the region, revenue raising authority is constrained by New Jersey's 2% cap on growth in the property tax levy. The borough has some capacity to adjust non-tax miscellaneous revenues which represent about 12% of the budget.

### HIGH CARRYING CHARGES

Another pressure is the relatively high cost of funding debt service, pension, and OPEB. The proposed fiscal 2014 budget appropriates close to \$3 million for debt service (excluding the impact of funds held in escrow for note repayment) and an additional \$1.1

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million for pension. The borough also fully covers the cost of retiree healthcare benefits, which have doubled from \$336,500 in 2009 to \$736,651 in 2012. Fitch estimates the borough's carrying charges at roughly one-third of spending.

Pension costs for the borough will likely continue to rise, as the state is in the midst of a seven-year plan adopted in 2010 to fully fund the actuarial required contribution (ARC) for its pension plans. This concern is somewhat tempered by the borough's fast pace of debt amortization (66% in 10 years) and absence of additional new money borrowing plans, which should alleviate pressure from debt charges over the intermediate term.

Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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U.S. Local Government Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=685314](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Tax-Supported Rating Criteria

[http://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=686015](http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)

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