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Summary:

Lodi, New Jersey; General Obligation

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Credit Profile

US\$11.35 mil GO bnds ser 2013 due 04/15/2028

Long Term Rating

AA-/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating and stable outlook to the borough of Lodi, N.J.'s series 2013 general obligation (GO) bonds.

The 'AA-' rating reflects our view of the borough's:

- Participation in the diverse New York City metropolitan area,
- Largely stable property tax base with very strong per capita market values and good income indicators,
- Solid financial position coupled with significant banked levy capacity, and
- Low debt burden with limited capital needs and rapid principal amortization.

We believe the borough's above-average unemployment rate tempers the aforementioned strengths.

The bonds are secured by the borough's full faith and credit pledge. We understand proceeds will current refund \$12.05 million of bond anticipation notes maturing April 26, 2013.

Lodi encompasses a 2.2-square-mile section of Bergen County, about eight miles west of New York City. Its population of about 24,000 has been relatively stable since the 2000 census. The borough is a mature, residential suburb of New York City with a modest commercial base; about 13% of the property tax base in 2013 is classified as commercial. In addition, residents have good access to employment opportunities countywide and in northern New Jersey and New York City. Nevertheless, the borough's unemployment rate in 2012 (10.2%) was higher than both the county (8.1%) and state (9.5%). In our view, income levels are good with median household effective buying income (EBI) and per capita EBI at 104% and 98% of national levels, respectively. Assessed value (AV) declined slightly between 2010 and 2013 to \$1.94 billion; the annual declines averaged 0.2%. The 2012 market value of \$2.1 billion is about \$90,000 per capita, which we consider very strong. The tax base exhibits little concentration with the 10 leading taxpayers accounting for just 7.4% of AV.

Management reports little damage to the borough's property tax base and no damage to its infrastructure due to Hurricane Sandy. We understand cleanup costs totaled \$200,000 and that the borough was able to use cash on hand and has already been fully reimbursed.

The borough's reserve position was aided by its move to the state health insurance plan from self-insurance in May 2010 that lowered budgeted expenditures in fiscal 2010 and 2011 by about \$1.5 million. Fiscal 2011 (Dec. 31) closed with an \$180,000 increase in the unreserved general fund balance that raised the available reserve to \$3.7 million, or

13.3% of expenditures, which we consider strong). The surplus was achieved despite a \$1.6 million budget-balancing reserve appropriation. Property taxes accounted for nearly 70% of revenues, and the borough's current collection rate is strong, having averaged 99% in the last three fiscal years. The fiscal 2012 budget was balanced with a \$1 million appropriation, though unaudited results show a smaller \$400,000 use of reserves. We understand the drawdown was due to personnel cost overruns.

We also understand that the borough expects to adopt a 2013 budget without any use of reserves and that this was largely achieved through several high-level retirements. We view the structurally balanced budget as a credit strength as well as the borough's banked levy capacity of \$800,000. While there is no reserve policy, we understand the borough has no plans to spend down general fund reserves.

Standard & Poor's considers the borough's management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. It is our understanding that elected officials receive monthly budget and investment reports, and the finance department employs a zero-based budgeting approach. The borough does not have a long-term financial plan of reserve policy, but it does have five-year capital improvement plan. While there is no formal debt policy, the borough targets a debt service carrying charge of below 10% of budget.

The overall net debt burden is \$1,500 per capita, or 1.7% of market value, which we consider low. Carrying charges represent 7.1% of total general fund expenditures, which are also low. Amortization is, in our opinion, rapid, with officials planning to retire 79% of debt over 10 years. The borough has a recurring capital program funded by annual debt issuance of about \$1 million.

Eligible employees participate in the Public Employees' Retirement System or the Police and Firemen's Retirement System both of which are administered by the state. The borough fully funded its contribution requirement in the past three years. In fiscal 2011, this amount totaled \$1.7 million, or 6.1% of general fund expenditures.

Outlook

The stable outlook reflects Standard & Poor's opinion of the borough's strong financial position, aided by the planned adoption of a structurally balanced budget in fiscal 2013 and banked levy capacity. Future credit direction will likely depend on improved economic indicators as well as continued financial strength, though we don't expect to change the rating within the outlook's two-year horizon.

Related Criteria And Research

- 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: State Credit Enhancement Programs, Nov. 13, 2008

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