

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Hammonton, N.J.'s approximately \$8.6 million series 2023 bond anticipation notes (BANs).
- At the same time, we affirmed our 'AA-' long-term rating on the town's general obligation (GO) debt outstanding.
- The outlook, where applicable, is stable.

Security

The town's full-faith-and-credit pledge secures the BANs and existing GO bonds. The short-term rating reflects our opinion of Hammonton's general creditworthiness and market risk profile, which we consider low and which reflects our view of the town's strong legal authority to issue long-term debt to take out the notes, as well as its ongoing disclosure to market participants. BAN proceeds will be used to currently refund Hammonton's series 2022 BANs and to temporarily finance various capital projects throughout the town. Management expects to permanently finance the BANs in 2024, in an amount totaling approximately \$10.0-\$11.0 million, which will be easily layered in as current debt service falls drastically in 2025. Following this issuance, the town will have approximately \$33.1 million in direct debt outstanding, nearly \$9.0 million of which is short-term debt.

Credit overview

Hammonton's credit quality benefits from its primarily residential economy and a tax base that has shown major diversification of its top taxpayers and overall economic improvement in recent years, with little impact from the COVID-19 pandemic. The rating is additionally supported by conservative budgeting practices that have led to a strengthened fund balance position. As with most New Jersey municipalities, Hammonton appropriates a portion of its fund balance each year. However, following a recent shift in focus to only appropriate what is likely to be regenerated, management has been able to replenish its surplus in each of the last several years. Its approximately \$16.7 million 2023 budget includes a \$2.8 million reserve appropriation; however, management notes that, even with some major expenditure increases, it expects to fully regenerate this surplus come year-end. Likewise, management expects the 2024 budget to be in line with previous years, with no major changes in fund balance appropriation. The town also has around \$7.0 million in American Rescue Plan Act (ARPA) funding, which is being used for utility infrastructure improvements and street projects.

Somewhat mitigating our view of the township's strong financial and economic profiles are its large pension and other postemployment benefits (OPEB) obligation and elevated total fixed costs, which totaled 24.8% in fiscal 2022. The town's elevated pension burden, which is typical across New Jersey municipalities, is a credit weakness. Across the two plans in which Hammonton participates, its proportionate share of the net pension liability is \$23.7 million. While it is currently managing pension costs, we think the township has a limited ability to control liability growth due to state restrictions. (For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.)

Other credit factors include our view of Hammonton's:

- Primarily residential tax base, with a large commercial presence, which has experienced consistent growth in recent years and is characterized by average income levels;
- Conservative budgeting practices, producing positive operational performance in recent years, supported by its revenue reliance on property taxes, leading to a very strong financial position, which we expect will be sustained;
- Good financial management policies, highlighted by budgeting oversight and monitoring, annually updated long-term financial and capital plans, , and a strong institutional framework score; and
- Sizable debt burden, with elevated carrying charges countered by rapid amortization, but further stressed by our view of a large pension liability under a poorly funded pension plan, with some pressure from already elevated pension costs.

Environmental, social, and governance

We have analyzed environmental and social risks relative to Hammonton's economy, management, financial measures, and debt and liability profile, and view them as neutral within our credit analysis. We consider the state's governance of its pension plans and lack of a mechanism to prefund OPEB a weakness for all New Jersey local governments..

Outlook

The stable outlook reflects our view of the town's sustained budgetary flexibility, resulting from consistent regeneration of surplus appropriation. Further supporting the stable outlook is continued growth in the local economy, showing year-over-year tax base growth and less cyclicity than what we have seen in the past, given its location in Atlantic County.

Downside scenario

We could lower the rating if the town were to experience financial pressures leading to a utilization of reserves to fund recurring expenditures or higher pension or OPEB contributions, in turn leading to budgetary imbalances or a material deterioration in fund balance.

Upside scenario

We could raise the rating if the town were to experience economic growth leading to wealth and income indicators reaching levels commensurate with those of higher-rated peers.

Key Credit Metrics - Hammonton	Most recent	Historical information		
		2022	2021	2020
Adequate economy				
Projected per capita EBI % of U.S.	99			
Market value per capita (\$)		109,786		
Population		14,691	14,000	14,132
County unemployment rate(%)		5.1		
Market value (\$000)		1,612,862	1,514,350	1,486,889
Ten largest taxpayers % of taxable value	6.3			
Strong budgetary performance				
Operating fund result % of expenditures		0.5	3.8	1.1
Total governmental fund result % of expenditures		0.5	3.8	1.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		24.2	24.4	21.2
Total available reserves (\$000)		3,541	3,468	2,932
Very strong liquidity				
Total government cash % of governmental fund expenditures		37	36	34
Total government cash % of governmental fund debt service		220	207	192
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		16.9	17.4	17.9
Net direct debt % of governmental fund revenue	122			
Overall net debt % of market value	3.2			
Direct debt 10-year amortization (%)	66			
Required pension contribution % of governmental fund expenditures		7.9		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				
Data points and ratios may reflect analytical adjustments.				