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Summary:

Salem County, New Jersey; General Obligation; School State Program

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Credit Profile		
US$4.48 mil General Obligation Rfdg Bnds ser 2014 due 10/01/2025		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Salem County, N.J.'s series 2014 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA' ratings on debt issued either by the county or on its behalf by the Salem County Improvement Authority. The outlook on all issues is stable.

The county's unconditional and irrevocable GO guarantee ultimately secures all county, improvement authority, and Salem County Utilities Authority debt. Officials plan to use the 2014 bond proceeds to refund the county's outstanding 2005 GO bonds.

The rating reflects our opinion of the following factors for the county, specifically its:

- Strong economy, with access to the broad and diverse Philadelphia-Camden-Wilmington metropolitan statistical area (MSA), providing residents with ample regional job opportunities;
- Strong budgetary flexibility, with expected available reserves at 8.3% of fiscal 2013 expenditures;
- Strong budgetary performance, with a relatively stable revenue stream due primarily to property taxes;
- Very strong liquidity, providing very strong cash to cover debt service and expenditures;
- Adequate management, with "standard" formal financial management policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong debt and contingent liabilities, due mostly to moderate net debt and above-average amortization; and
- Strong institutional framework.

Strong economy

We consider Salem County's economy strong, with projected per capita effective buying income at 103.5% of the national level. Market value is $81,683 per capita. Salem County (population: 65,654) is located in the southwestern part of the state, with the Delaware River and Delaware Bay to the west and southwest, and the city of Wilmington, Del. directly across the border. We consider the county's location a positive credit factor due to its participation in the Philadelphia-Camden-Wilmington MSA. The property tax base is, in our opinion, broad and diverse, with market value at $5.3 billion in fiscal 2013. Market value has decreased for four consecutive fiscal years, to a current 82% of fiscal 2009 value. However, county management notes several economic development projects that have either broken ground or are nearing completion. Despite these developments, we do not expect significant resulting impacts to the tax base or unemployment levels. Unemployment averaged 8.8% in 2013, down from 10.6% in 2012.

Strong budgetary flexibility

The county's budgetary flexibility, in our view, is strong based on audited fiscal 2013 results. Fund balance increased to $7.3 million, or 8.3% of fiscal 2013 expenditures, which we consider strong. While the county has allocated roughly 40% of fiscal 2013 fund balance in the fiscal 2014 budget, management does not expect to use any of the appropriation. Instead, it expects to add roughly $300,000 in surplus, which would translate into 10% of budgeted expenditures. In past and current years, the county has not raised taxes above the state-mandated 2% levy cap, instead choosing to rely on improving revenue streams such as court recording charges and fees from Gloucester County to offset increasing expenditures.

Strong budgetary performance

In our view, overall budgetary performance in fiscal 2013 was strong, improving from weak budgetary performance and a 3.9% year-end total government funds operating deficit in fiscal 2012. The county's 2013 audited result was a 3% surplus in the current fund and total governmental funds, which we largely attribute to a change in management the year prior leading to new financial policies.

Historically, the county's budgetary performance has been weak, with six consecutive years of operating deficits. Management attributes the recent turnaround in financial performance to significant cuts made in fiscal 2012, with the subsequent savings realized in fiscal 2013. The expenditure cuts included cutting 22 positions, savings from reforms on health care costs, and negotiating new contract terms with county unions, curbing salary and wage growth to some extent. A large contributor to the county's financial improvement was a new 10-year agreement with Gloucester County to house the county's inmates, which guarantees Salem at least $6 million a year. This guarantee is a floor, and management indicates current revenues are well above the guaranteed amount. Management also indicates discussions involving further cost-savings and cuts are ongoing, with fiscal 2014 results expected to reflect these measures. Although the county has appropriated roughly $2.2 million in fund balance for 2014, it anticipates replenishing this amount and adding around $300,000 to fund balance. Management attributes this expected surplus to lower-than-expected pension costs. The county is projecting for about a $200,000 decline in current fund balance in fiscal 2015, although we recognize the projection reflects some conservative budgeting assumptions. Pension and health costs are assumed to increase 4% and 10%, respectively, but those costs have recently come in under budget. The projections also include only the guaranteed amount from Gloucester County, when historically such revenues have been higher.

We expect Salem County's operating performance to remain strong, so long as management remains prudent in managing future health care insurance and pension costs. Based on our macroeconomic forecasts (see the article titled, "U.S. State And Local Government Credit Conditions Forecast", published April 7, 2014, on RatingsDirect), credit conditions in the mid-Atlantic region are improving slightly, which should foster a stable budgetary environment. Property taxes generated 61% of total governmental revenue in fiscal 2013.

Very strong liquidity

What we consider very strong liquidity supports the county's finances, with available cash at 16% of total governmental funds expenditures and more than 200% of debt service. We believe the county has strong access to external liquidity, as it has issued GO and lease revenue bonds frequently within the past 15 years.

Adequate management conditions

We view the county's management as adequate, with "standard" financial management policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. Some key practices include formal quarterly budget-to-actual reports to the county board's administration committee, and monthly reports on investment performance and holdings. The county's formal five-year capital plan includes all identified funding sources. The county does not currently have a debt management policy outside of state guidelines.

Strong debt and contingent liabilities profile

In our opinion, the county's debt and contingent liabilities profile is strong. Total direct debt is $67.4 million, of which $8.5 million comprises bond anticipation notes outstanding. Debt service is 6.3% of total current funds expenditures, and net direct debt is 74% of total revenue. Overall net debt is 3.3% of market value. Amortization is rapid, with officials plan to retire about 70% of all debt within 10 years.

County employees participate in the New Jersey Public Employees' Retirement System, the New Jersey Police & Firemen's Retirement System, the defined-contribution retirement program (DCRP), or the county retirement system. The county makes about 78% of its required contribution to these plans. Prudential Financial Inc. jointly administers the DCRP investments, with the New Jersey Division of Pensions & Benefits and a board of commissioners administering the county retirement system. The county also provides other postemployment benefits (OPEB) through a cost-sharing, multi-employer, defined-benefit postemployment health care plan administered by the state. The county's actual combined pension and OPEB contribution in fiscal 2013 was about 6.0% of governmental expenditures, which we consider manageable.

Strong institutional framework

We consider the institutional framework score for New Jersey counties to be strong.

Outlook

The stable outlook reflects our view of a county that derives certain benefits from its participation in the Philadelphia-Camden-Wilmington MSA, coupled with improved budgetary flexibility and budgetary performance. The county has been proactive in recent years, with an aggressive plan to cut expenditures and bring in new revenue sources. With the added revenue provided via the prisoner agreement with Gloucester County, we expect the county to maintain or improve financial performance in the future. We view upward rating potential as limited, however, because the county's economic indicators and management conditions are not commensurate with a higher rating at this time. While we do not expect to lower the rating within the two-year outlook period, a sharp and unforeseen decline in financial metrics would lead to negative rating pressure.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, Oct. 15, 2014
- Institutional Framework Overview: New Jersey Local Governments

Ratings Detail (As Of October 22, 2014)		
Salem Cnty cnty coll bnds		
Long Term Rating	AA/Stable	Affirmed
School Issuer Credit Rating	AA/Stable	Affirmed
Salem Cnty GO		
Long Term Rating	AA/Stable	Affirmed
Salem Cnty Imp Auth, New Jersey		
Salem Cnty, New Jersey		
Salem Cnty Imp Auth rev bnds (Correctional Facility & Court Hse Annex Proj rfdg ser 2013)		
Long Term Rating	AA/Stable	Affirmed
Salem Cnty Imp Auth (Salem Cnty) GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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