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Summary:
Clifton, New Jersey; General Obligation

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Summary:

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Credit Profile		
US$6.9 mil GO rfdg bnds ser 2012 due 08/01/2020		
Long Term Rating	AA-/Stable	New
Clifton GO		
Long Term Rating	AA-/Stable	Affirmed
Clifton GO (CIFG)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AA-' long-term rating to the city of Clifton, N.J.'s series 2012 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed the 'AA-' underlying rating (SPUR) on the city's previously issued bonds. The outlook is stable.

The long-term rating reflects our assessment of the city's:

- Primarily residential area with excellent access to and participation in the greater northern New Jersey and New York City metropolitan statistical area;
- Large and diverse tax base, coupled with extremely strong market values per capita;
- Improving financial position after planned and unforeseen expenditures had nearly deteriorated the current fund reserve levels and liquidity position; and
- Moderate debt burden with manageable future capital needs.

The city's full faith and credit pledge secures the bonds. The city will use bond proceeds to refund a portion of the city's outstanding series 2003 and 2004 GO bonds.

Clifton is 15 miles west of New York City in Passaic County. The population is currently 79,540, and has remained relatively steady over the past two decades. The city is mature, primarily residential, with an ample commercial and retail sector that accounts for roughly 15% of the tax base. Despite its mature nature, there is limited room for new development and redevelopment. In recent years, there has been some new residential development of former industrial sites. There has also been an ongoing commercial infill process within established residential communities. There are currently several large commercial and retail projects under development that management believes will increase the tax base. Several of those projects include the Riverfront Shopping Mall and a data center that is nearing completion. Management indicates that the number of building permits have increased this past year, which should aid in the ongoing growth of the tax base. Nevertheless, despite this ongoing growth over the past several years, primarily from commercial development, it was not sufficient to offset losses from recent tax appeals. The city's tax base is large and diverse, totaling $5.29 billion in fiscal 2012, equating to a per capita market value of $129,991, which we consider extremely strong, though it represents a modest a decrease of 0.8% from 2009 levels. Management has indicated assessed value (AV) for 2013 could experience another modest decline. Tax base growth has been sluggish over the past five years, with AV increasing by less than 1% since 2007. The tax base is also very diverse, with the 10 leading taxpayers representing 6.3% of total AV.

Hoffman LaRoche, the city's major employer and taxpayer, continues to be a stabilizing entity within the city despite the recent demolition of one of the company's closed manufacturing plants. Beginning in 2009, the company had made the decision to move the manufacturing component to the west coast and relocate higher paying research and development positions to the current facility sites. Since then, facilities have been updated to accommodate these new employees. In addition to Clifton's local employment base, residents have easy access to the vast employment opportunities located within the New York City metropolitan area. City unemployment, which was 9.7% in February 2012, has historically been below the county yet slightly above state and national averages. We consider resident income levels, as demonstrated by median household effective buying income, good at 87% and 110% of the state and national averages, respectively. The city's financial position continues to improve after several years of large drawdowns that weakened overall financial operations and reserves. Fiscal 2010 closed with its second year of operating surpluses, following four consecutive years of drawdowns (fiscals 2005 to 2008) due to several factors. Fiscal 2010 closed with a $2.96 million surplus and increased the city's unreserved general fund to $6.95 million, which we consider good at 6.8% of expenditures. Management attributes the surplus to revenues coming in slightly more than budget while cost-cutting measures remained in place on the expenditure side. Although still unaudited, management is projecting fiscal 2011 to close with another surplus of $1.8 million due to permitting fees and property taxes coming in over budget. The unreserved general fund balance is an estimated $8.82 million, which we consider good at 8% of budget. Management has further indicated that revenues and expenditures are currently tracking on target with budget for fiscal 2012. The fiscal 2012 budget, which has not yet been adopted, is within the 2% levy cap and appropriation limits. It also includes the proposal of creating a sewer utility fund, which will be self-supporting, but managed by the city. The city participates in the state-administered pension plans. In fiscal 2010, the city made its full annual contribution to the plans, which accounted for 12.9% of current fund expenditures.

Before fiscal 2009, the city had four consecutive drawdowns from the current fund, which weakened its financial position. The drawdowns in fiscals 2005 and 2007 were primarily due to tax-rate stabilization. However, in addition to tax-rate stabilization, there was a newly implemented 4% tax levy cap, as well as revenue shortfalls and extraordinary health insurance claims of more than $4 million, and the city experienced another reduction of its reserves in fiscal 2008. To remedy the large increase in expenditures, the city approved an emergency authorization totaling $1.6 million to offset the group health insurance claims, which led to a lesser drawdown in fiscal 2008. For fiscal 2009, the city applied for and received a $3.7 million levy cap waiver from the local finance board for several one-time expenses, which included extraordinary group health insurance costs and nonrecurring costs due to layoffs. In addition, management made significant expenditure cuts that include demotions, staff reductions, a wage freeze, copay increases, increased sewer rates, and voluntary furlough days.

Clifton's management practices remain "standard" under Standard & Poor's Financial Management Assessment (FMA). An FMA of standard indicates that the finance department maintains adequate policies in most, but not all, key areas.

We consider the city's overall debt burden moderate, at $2,467 per capita, but low, at 1.9% of market value. Debt service carrying charges are also low, in our view, at 7.3% of the fiscal 2010 current fund expenditures. Debt service amortization rates are above average, with 86% of the city's direct debt retired within 10 years and 100% in 18 years. Management does not anticipate the issuance of additional debt in the near future.

Outlook

The stable outlook reflects our view of the city's local economy and participation in the regional northern New Jersey and New York metropolitan employment base. The stable outlook further reflects our expectation that management will continue to stabilize the city's financial position through continued conservative budgeting practices and ultimately maintain future balanced budgets. If the city is able to maintain stable financial operations and reserve levels, we do not expect the rating to change. However, if the city's financial performance again deteriorates due to a weakening of reserves and liquidity, we could consider a lower rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of May 16, 2012)		
Clifton GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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