

RatingsDirect®

Summary:

Clifton, New Jersey; General Obligation; Note

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Summary:

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Credit Profile

US\$12.479 mil GO bnds ser 2013 due 10/15/2031

<i>Long Term Rating</i>	AA-/Stable	New
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US\$4.16 mil BANs due 10/16/2014

<i>Short Term Rating</i>	SP-1+	New
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Clifton BANs due 10/16/2014

<i>Short Term Rating</i>	SP-1+	Affirmed
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Clifton GO

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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Clifton GO

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Clifton GO (CIFG)

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' long-term rating assigned to Clifton, N.J.'s series 2013 general obligation (GO) bonds and 'SP-1+' short-term rating to the city's bond anticipation notes (BANs). At the same time Standard & Poor's affirmed its 'AA-' underlying rating on the city's outstanding GO bonds. The outlook on the long-term bonds is stable.

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

- Low market risk profile;
- 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 that has been pressured from a few recent tax appeals and might be further affected by the loss of its largest taxpayer;
- Good to strong wealth and income levels and extremely strong market values per capita;
- Improving financial position after planned and unforeseen expenditures had deteriorated the city's current fund reserve levels and liquidity position; and
- A moderate debt burden with manageable future capital needs.

The city's full-faith-and-GO credit pledge secures the bonds and BANs. We understand that the city will use both the bonds and the BANs to finance various capital projects.

Clifton is located 15 miles west of New York City in Passaic County. The current population of 84,683 has remained

relatively steady over the past two decades. The city is mature, primarily residential, with an ample commercial, industrial and retail sector that constitutes roughly 26% of the tax base. Despite its mature nature, there is room for new development and re-development. In recent years, the city developed new residential properties on what had formerly been industrial sites, and it has an ongoing commercial infill process within established residential communities. Presently, there are several large commercial and retail projects that have either recently been added to the tax base or are still in the development stages and are expected to grow the tax base. As such, assessed value increased a modest 0.05% in 2013 to \$5.316 billion following years of modest declines stemming from ongoing property tax appeals. Many of the appeals, which came from the commercial sector, were sufficient enough to offset any new growth in the tax base during those years. Management has indicated that many of the appeals have been settled and it does not expect remaining appeals to have a material impact on the budget as the city maintains an ample level of dedicated reserves. Further declines are not expected. Per capita market value is \$111,590; a level we consider extremely strong.

Given its location and excellent access, residents find employment throughout the broader northern New Jersey and New York City employment bases. City unemployment at 10.1% in 2012, was slightly above state and national levels. Wealth and income levels, measured by median household effective buying income, are good to strong at 87% of the state and 110% of the nation.

In June of 2012, Hoffman-LaRoche, the city's leading taxpayer and one of the area's leading employers, announced the closing of its research and development site located in both the Township of Nutley (75%) and Clifton (25%). When complete, the closure will affect 1,000 employees. The company has long provided stability to the area. Following the announcement, Clifton, Nutley, and Hoffman-LaRoche set up a re-purposing committee to plan for the future development of the prime 120-acre site. A marketing study is currently underway and must be completed by the end of calendar 2013. The city is not looking for additional residential growth but rather more research related firms that can use existing structures. This committee will also discuss future tax base ratables (i.e., economic development projects), once the site has been re-purposed, and it is considering moving boundaries or revenue sharing arrangements. While Hoffman-LaRoche has committed to making the required tax payments in fiscal 2013, we will continue to monitor the progress. Currently, leading taxpayers, including Hoffman-LaRoche, account for a very diverse 6.7% of total assessed value. Hoffman-LaRoche alone accounts for 1.96% of total AV.

The city's financial position continues to improve after several years of sizable drawdowns that weakened overall financial operations and reserves. Fiscal 2012 closed with a modest \$183,000 drawdown; following three years of healthy operating surpluses. The drawdown was net of transfers, primarily \$2 million to reserve against future tax appeals. The total unreserved current fund balance was \$8.4 million or a good 8.1% of expenditures. More than half way through fiscal 2013, management is estimating a break-even year with reserve levels in line with fiscal 2012; revenues are tracking on target with budget and expenditures are near target. Liquidity is not a concern because the city maintained 81 days' cash on hand in fiscal 2012. Furthermore, the city has ample remaining taxing flexibility as it has been below the 2% levy cap. As previously indicated to us, the city established a sewer utility fund in fiscal 2012. The fund was self-supporting and is managed by Clifton. A rate study is currently underway so that the fund remains self-supporting. Tax collection rates have been strong, averaging over 99% annual over the past five fiscal years.

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.

The city's overall debt burden is moderate, at \$2,577 per capita, but low, at 2.1% of market value. Debt service carrying charges are low at 6.9% of the fiscal 2012's current fund expenditures. Debt service amortization rates are above average, with 85% of the city's direct debt retired within 10 years and 100% in 18 years.

The city participates in the state administered pension plans and makes the required annual contribution. Total contributions, which include OPEB costs (made on a pay-go basis) accounted for a moderate 15% of total current fund expenditures in fiscal 2012.

Outlook

The stable outlook reflects 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 maintain a stable financial position with good reserve levels through conservative budgeting practices. While we do not expect the rating to change over the two-year outlook horizon, due to the uncertainty surrounding the loss of Hoffman-La-Roche, the rating could move in either direction based on how Clifton handles the potential loss of ratables and revenues. If the city maintains a stable financial position and improves reserves, we may raise the rating. However, if reserves are used to bridge any imbalances, the rating may be pressured downward.

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: Short-Term Debt, June 15, 2007

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