S&P Global
Ratings

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Summary:
Clifton, New Jersey; General Obligation

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Credit Profile		
US$12.606 mil GO bnds ser 2016 due 10/01/2036		
Long Term Rating	AA-/Stable	New

Rationale

S&P Global Ratings assigned its 'AA-' long-term rating to Clifton, N.J.'s series 2016 general obligation (GO) bonds. In addition, we affirmed our 'AA-' rating on the city's existing GO debt. The outlook is stable.

The city's full faith credit and unlimited ad valorem pledge secures the bonds. Officials plan to use the bond proceeds to permanently finance various general capital improvements.

The rating reflects our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2015, which closed with a slight operating deficit in the general fund in fiscal 2015;
- Strong budgetary flexibility, with an available fund balance in fiscal 2015 of 8.2% of operating expenditures;
- Very strong liquidity, with total government available cash at 23% of general fund expenditures and 3.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.2% of expenditures and net direct debt that is 72.5% of general fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 89.2% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider Clifton's economy strong. The city, with an estimated population of 85,652, is located in Passaic County in the New York-Newark-Jersey City MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 102.1% of the national level and per capita market value of $110,188. Overall, the city's market value grew by 1.1% over the past year to $9.4 billion in 2016. The county unemployment rate was 6.9% in 2015.

Clifton is located 15 miles west of New York City in Passaic County. The city is mature, primarily residential, with an ample commercial, industrial, and retail sector that accounts for 26% of the tax base. Despite its mature nature, there is limited room for new development and redevelopment. Given its location and excellent access, residents find employment throughout the broader northern New Jersey and New York City employment bases. Currently, leading taxpayers, including Hoffman-La Roche, account for a very diverse 6.45% of total AV. Hoffman-La Roche alone accounts for 1.25% of total AV.

In June 2012, Hoffman-La Roche--the city's leading taxpayer and one of the area's leading employers--announced the closing of its research and development site that straddles both the township of Nutley (75%) and Clifton (25%). Operations ceased in December 2013 and affected 1,000 employees. The company long provided stability to the area. The city is not looking for additional residential growth but rather more research-related firms that could utilize some of the existing structures. Following the announcement, Clifton, Nutley, and Hoffman-La Roche set up a re-purposing committee to plan for the development of the prime 120-acre site. In July 2016, Seton Hall University and Hackensack Meridian Health announced a long#?term agreement to lease 16 acres of the site for a new medical school.

Following several years of tax base declines, primarily due to ongoing tax appeals from the commercial sector that offset any new economic development, AV continued to experienced modest declines of 0.1% in fiscal 2015 and 0.3% in fiscal 2016 to a current $5.329 billion. Management has indicated that many of the appeals have been settled and remaining appeals are not expected to have a material impact on the budget in addition the city maintains an ample level of dedicated reserves. Management does not expect further tax-base declines.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Among the highlights of the city's management techniques are monthly reports to the board on budget performance. Clifton follows state investment policies. Management also maintains a six-year capital improvement plan that it updates annually as part of the budget. Clifton does not use formal trend analysis when assessing revenue and expenditure assumptions. The city currently lacks formal debt issuance and reserve policies and long term financial planning.

Adequate budgetary performance

Clifton's budgetary performance is adequate in our opinion. The city had slight deficit operating results in the general fund of 1.3% of expenditures in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term.

Clifton has had an operating surplus in four of the past six fiscal years, which management attributes to conservative budgeting.

Fiscal 2015's deficit was due to the city's decision not to raise taxes in order to provide relief to the taxpayers and instead draw from reserves to balance the budget; it appropriated approximately $4.3 million from reserves to balance the fiscal 2016 budget. The city did raise taxes in fiscal 2016 and should close the year with results similar to that of years prior to 2015. Currently, management expects at least break-even results with no use of reserves. Therefore, we believe budgetary performance will likely remain at least adequate.

Property taxes generated about 73% of fiscal 2015 general fund revenue and intergovernmental aid accounted for 9.5%. Clifton's collections have been sound, in our view: Collections averaged 99% of the current levy during the past five fiscal years.

Strong budgetary flexibility

Clifton's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2015 of 8.2% of operating expenditures, or $8.8 million.

Officials expect at least balanced results for fiscal 2016 due to a tax increase and overall budget decrease from fiscal 2015. We understand Clifton does not currently plan to spend down reserves significantly. Therefore, we believe budgetary flexibility will likely remain strong.

Very strong liquidity

In our opinion, Clifton's liquidity is very strong, with total government available cash at 23% of general fund expenditures and 3.2x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe Clifton's regular debt issuance supports its strong access to external liquidity. Clifton does not currently have any variable-rate or direct-purchase debt. It has consistently maintained very strong liquidity, and we expect our assessment of liquidity to remain unchanged during the outlook period. Although the state allows for what we view as permissive investments, we believe the city does not currently have aggressive investments.

Adequate debt and contingent liability profile

In our view, Clifton's debt and contingent liability profile is adequate. Debt service is 7.2% of general fund expenditures, and net direct debt is 72.5% of general fund revenue. Overall net debt is low at 2.2% of market value, and approximately 89.2% of the direct debt is scheduled to be repaid within 10 years, which are positive credit factors. Total direct debt is about $92 million. Clifton doesn't expect any significate debt plans in the next two years.

In our opinion, a credit weakness is Clifton's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Clifton's combined required pension and actual OPEB contributions totaled 11.9% of general fund expenditures in 2015. Of that amount, 8.3% represented required contributions to pension obligations, and 3.5% represented OPEB payments. The city made its full annual required pension contribution in 2015. The funded ratio of the largest pension plan is 77.6%.

The city participates in the New Jersey Public Employees' Retirement System (PERS) and the New Jersey Police & Firemen's Retirement System (PFRS), which are cost-sharing, multiemployer, defined-benefit pension plans that the New Jersey Division of Pensions & Benefits administers. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement No. 68, the city's shares of the net pension liabilities in the state system were $45.8 million and $13.2 million for PERS and PFRS, respectively, in fiscal 2015. PFRS was 52.8% funded and PERS was 38.2% funded in fiscal 2015 based on Clifton's net position as a percent of the total pension liability.

The city also provides health care benefits to retired employees; it funds this liability through pay-as-you-go financing. The plan's unfunded actuarial accrued liability was $165 million as of Dec. 31, 2015. New Jersey does not permit its municipalities to fund OPEB trusts and the state sets the required annual contributions to be paid by the city.

Total contributions, which include other postemployment benefits costs made on a pay-go basis, accounted for 11.9% of total current fund expenditures in fiscal 2015. The city was allowed to defer 50% of its pension requirements in 2009-2011. Beginning in 2012, the city was required to begin repaying amounts deferred over a 15-year period.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Outlook

The stable outlook reflects our opinion of the city's ability to maintain at least adequate budgetary performance with the expectation that reserves will remain strong. The city's access to the New York City MSA lends further stability to the rating. As such, we do not expect to change the rating during the two-year outlook horizon.

Upside scenario

If economic indicators were to improve, while budgetary performance remained strong to sustain at least strong reserves, and if the city's management were to institutionalize more-defined financial policies, we could consider raising the rating.

Downside scenario

If budgetary performance were to deteriorate, leading to a significant drawdown of fund balance, we could consider lowering the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of September 8, 2016)		
Clifton GO		
Long Term Rating	AA-/Stable	Affirmed
Clifton GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Clifton GO (CIFG)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.