

# RatingsDirect®

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## Summary:

# Brigantine, New Jersey; General Obligation; School State Program

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## Summary:

# Brigantine, New Jersey; General Obligation; School State Program

### Credit Profile

US\$6.365 mil water sewer util bnds ser 2021 dtd 10/29/2021 due 10/15/2033

*Long Term Rating*

AA/Stable

New

## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Brigantine, N.J.'s series 2021 water/sewer utility general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating and underlying rating on the city's GO debt outstanding. The outlook is stable.

Securing the debt serviced on the bonds and GO debt outstanding is the city's full faith and credit and agreement to levy ad valorem property taxes, without limitation as to rate or amount. The New Jersey Fund for the Support of Free Public Schools provides additional security for various GO school bonds. Bond proceeds will fund various water and sewer capital improvements includes investments in the city's water storage tanks.

### Credit overview

The rating is supported by the city's very strong reserve levels and real estate characteristics and its strong management team. While Brigantine is exposed to heightened environmental risks given its coastal location, it is undertaking a number of important resiliency projects to protect its citizens and tax base. Beyond its attractive coastal location, the city benefits from its proximity to Atlantic City, Philadelphia (60 miles), and New York City (110 miles). During the COVID-19 pandemic, the local real estate remained very strong although the county unemployment rate spiked given the exposure to more cyclical industries. The resilience of Brigantine's local tax base, combined with conservative budgeting, allowed the city to achieve positive financial results throughout the pandemic. Somewhat weighing on the city's credit profile are relatively poorly funded pension plans and potentially escalating pension contributions, which may require additional expenditures. However, the city provides modest retiree health care coverage limited to dental benefits, and this reduces risk associated with funding this liability.

The rating further reflects our view of the city's:

- Adequate economy, with market value per capita of \$404,822 and projected per capita effective buying income at 128%, though this is slightly limited by a high county unemployment rate exceeding 10% in 2020, notwithstanding the recovery over the course of 2021;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the current fund in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 23% of operating expenditures;

- Very strong liquidity, with total government available cash at 62.5% of current fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability profile, with debt service carrying charges at 11.9% of expenditures and net direct debt that is 108.3% of current fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 90.2% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

### **Environmental, social, and governance (ESG) factors**

Brigantine faces elevated environmental risks compared with other non-coastal peers. The city, located on a barrier island in the Atlantic Ocean, incurred significant damages during Hurricane Sandy and is prone to flooding, both from its ocean and bay side. However, the city has undertaken significant climate resiliency efforts, including bulkhead repairs and replacements. In addition, a number of projects are underway including a boardwalk extension in cooperation with the Army Corps of Engineers that should mitigate flooding risks, a backup generator for a water pump station and adding redundancies for gas and electric lines. Other than these environmental risks, we view governance and social risks as being in line with the sector standard.

## **Stable Outlook**

### **Upside scenario**

We could consider a positive rating action if the city's fixed costs, including from pension costs, moderated while the city maintained very strong reserves and the local economy became less exposed to cyclical sectors.

### **Downside scenario**

If the city's economic indicators were to weaken or if budgetary trends were to deteriorate, resulting in diminished reserves, we could lower the rating.

## **Credit Opinion**

### **Adequate economy**

We consider Brigantine's economy adequate. The city, with an estimated population of 8,578, is located in Atlantic County. The city has a projected per capita effective buying income of 128% of the national level and per capita market value of \$404,822. Overall, the city's market value grew by 1.0% to \$3.5 billion in 2021. Atlantic County's unemployment rate spiked because of the pandemic and was 17.8% in 2020, which we consider high and a negative credit factor. However, the county and city unemployment rates have since recovered and the county unemployment rate was 9.5% in August 2021, while the city reports labor shortages similar to other parts of the country.

The island is 6.39 square miles with its property classification 96% residential. Located directly northeast of Atlantic City and 67 miles southeast of Philadelphia, the city is bounded by the Atlantic Ocean, Brigantine Inlet, Absecon Inlet, and inland waterways. In addition, the State of New Jersey owns about half of the island under the Green Acres Program. The Brigantine National Wildlife Refuge, a 20,000-acre national park, lies three miles northwest of the city.

Given its desirable location, Brigantine's economy is heavily influenced by tourism and second homeowners. During the summer season, the city's population swells to over 30,000 from the year-round population of around 8,600. Given international travel restrictions and increased remote working options for many workers, Brigantine's local economy actually fared comparatively well during the pandemic. The city's housing market remained extremely strong during the pandemic, while higher beach and golf course fees indicate strong tourism activity, even beyond the typical Labor Day summer season end. While the city is broadly built-out, it continues to see incremental tax base growth for instance due to redevelopments of existing homes.

Management reports that there are a number of extreme weather resiliency efforts underway. For instance, the city has made significant progress regarding bulkhead repairs and replacement, bring them in line with Federal Emergency Management Agency (FEMA) guidelines. In addition, Brigantine is working with the Army Corps of Engineers on a proposed beachwalk extension that would protect the northern tip of the island from flooding. Lastly, South Jersey Gas and Atlantic City Electric are currently adding additional electric and gas lines that will serve as backups if the main lines are disrupted during an extreme weather event. We note that the city was not affected by recent extreme weather events, such as Hurricane Ida.

### **Strong management**

We have revised our view of the city's management to strong from adequate, reflecting good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The improved management score reflects the implementation of a comprehensive six-year capital plan that the city updates on an annual basis but reviews more frequently. Although state statutes only require a three-year plan for a city of Brigantine's size, officials decided a six-year plan would be more appropriate, given the city's capital and resiliency projects. The plan identifies funding sources. We also view positively steps management has taken to protect the city from emerging risks, such as cyber security threats.

Management looks at some historical data--mostly prior-year data--for its budgeting and prepares five-year projections. Management monitors the budget throughout the year, keeping the council informed quarterly with budget-to-actual reports. The city maintains informal five-year financial planning based on major revenue and expenditure assumptions, with straight-line assumptions utilized for most line items.

The city's cash management plan is adopted annually and governs the city's investment decisions with earnings reported annually. Management has codified its internal operating practices, including adopting a formal debt management policy that primarily adheres to state statutes and a reserve policy that dictates maintenance of 10% and 20% of operations in fund balance and stipulates that the city will not appropriate more than 60% of the reserve in the following year's budget as its surplus anticipation.

### **Strong budgetary performance**

Brigantine's budgetary performance is strong in our opinion. The city had slight surplus operating results in the current fund of 1.3% of expenditures in fiscal 2020. Current fund operating results have been stable, at 1.2% in 2019 and negative 0.5% in 2018.

In fiscal 2020, the city was able to replenish \$2.85 million in appropriated fund balance and end the fiscal year with surplus results. Although certain miscellaneous revenues fell short of budget, including interest income, this was more than offset by higher-than-budgeted beach and golf fees as well as construction permit fees given the strength of the local real estate market. Of importance, the surplus was also supported by record-high property tax collections of 99.08% against a very conservative budgeted collection rate of below 98%. Moreover, the city curtailed spending early in the pandemic though it did not implement any furloughs or layoffs. Pandemic-related costs of about \$126,000 were mostly covered by state reimbursements through the Coronavirus Aid, Relief, and Economic Security Act.

In fiscal 2021, budgetary trends have broadly continued, including shortfalls in certain miscellaneous revenues, which are offset by robust, beach, golf, and construction permit fees. In addition, property tax collections remain strong. The fiscal 2021 budget had included the city's first property tax rate increase since fiscal 2015, following six consecutive reductions in the tax rate. The positive revenue trend allowed management to relax the expenditure restraint implemented early in the pandemic. As a result, management expects to replenish the \$3.2 million in appropriated fund balance and likely add to reserves at fiscal-year end. In addition, the city expects it will receive just over \$900,000 in American Rescue Plan funds and will use the money for the water tower project it is currently borrowing for.

We expect the city will maintain strong budgetary performance, given conservative budgeting and the stability of its largest revenue source, property taxes, which account for 70% of current fund revenues

### **Very strong budgetary flexibility**

Brigantine's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 23% of operating expenditures, or \$7.0 million.

Reserve levels have remained very strong in Brigantine over the past few fiscal years and fund balance utilization was broadly stable at 45%-46%. Furthermore, the city has about \$3.7 million in banked levy capacity available for the fiscal 2022 budget, which would allow it to raise the levy above the 2% statutory cap should it be required to support operations. In addition, the city has flexibility in trust funds outside the current fund, including a reserve for tax appeals (\$500,000) and accumulated absence payouts (\$1.3 million). We believe these trust fund balances offset costs that might occur through unexpected retirements or tax appeals, preserving very strong flexibility in the current fund.

### **Very strong liquidity**

In our opinion, Brigantine's liquidity is very strong, with total government available cash at 62.5% of general fund expenditures and 5.2x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Although the state allows for what we view as permissive investments, we do not consider the city's investment in state cash management funds and bank deposits aggressive. In addition, Brigantine has not entered into any direct purchase agreements or other contracts that represent a contingent liquidity risk. As a result, we expect the city to maintain its very strong liquidity position.

### **Adequate debt and contingent liability profile**

In our view, Brigantine's debt and contingent liability profile is adequate. Debt service is 11.9% of general fund expenditures, and net direct debt is 108.3% of general fund revenue. Overall net debt is low at 1.6% of market value,

and approximately 90.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

Following the current transaction, the city will have about \$34.6 million of net direct debt outstanding, excluding debt supported through the water and sewer utility fund. We understand the city has plans for larger capital plans in 2024 and 2025, though issuance amounts would be broadly in line with debt paid off in the runup to these potential issuances. As a result, we consider the debt profile manageable, particularly with the city's rapid principal amortization of existing debt.

Given the city's coastal exposure, it has undertaken a variety of resiliency efforts to protect the community from significant weather events such as Superstorm Sandy and sea level rise. The bulkheads around the island have been or are in the process of being raised to nine feet, the Federal Emergency Management Agency's recommended height. The city is also extending its seawall, has installed stormwater gates, and has purchased backup generators to create utility redundancies. The improvements were primarily financed by the city with about 20% funded with federal money. Other efforts are ongoing, including installation of redundant natural gas infrastructure and electric substations raised to 500-year floodplain height.

Pension and OPEB liabilities:

- We view pension and OPEB liabilities as a source of credit pressure for Brigantine, as with most New Jersey local governments.
- While it is currently managing pension costs, we believe the city has limited ability to control future growth of these liabilities given state restrictions and funding discipline.
- The city paid about \$28,000 for OPEB in fiscal 2020. Benefits are limited to \$900 per year for dental coverage for certain public safety retirees and their spouses.

Brigantine participates in the following state-administered pension plans:

- Police and Firemen's Retirement System: 58.8% funded with a crossover date in 2076, with a proportional share of the net pension liability (NPL) equal to \$35 million.
- Public Employees' Retirement System: 42.9% funded with a crossover date in 2057, with a proportional share of the NPL equal to \$22.3 million.

Brigantine's pension contributions totaled 8.2% of total governmental fund expenditures in 2020. Although Brigantine funds 100% of its actuarially determined contributions (ADC), contributions fell short of both static and minimum funding progress, in part because of poor assumptions and methodologies, but also due to the state's continued underfunding of its portion of the ADC. The plans' 30-year, level-dollar open amortization schedule will result in slow funding progress. For more details and information on these risks, see our report, "New Jersey Pension Funding: State Actions Reverberate At The Local Level" (published Dec. 12, 2018, on RatingsDirect). Although the state did not make up for lottery contribution shortfalls in fiscal 2020, its adopted fiscal 2022 budget includes pension funding exceeding the full ADC for the first time in 25 years, which we view positively.

The city paid about \$28,000 for other postemployment benefits (OPEBs) in fiscal 2020. Benefits are limited to \$900 per

year for dental coverage for certain public safety retirees and their spouses. During fiscal 2020, the city provided postretirement dental coverage to 61 retirees. The estimated net OPEB liability was \$4.25 million, unfunded, as of Dec. 31, 2020. We view the lack of this liability as reducing the city's long-term risk to its budgetary balance.

### Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

Ratings Detail (As Of October 7, 2021)		
Brigantine GO bnds consisting of gen cap bnds & util cap bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Brigantine GO State Credit Enhancement		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA/Stable	Affirmed
Brigantine GO (AGM)		
<i>Unenhanced Rating</i>	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](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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