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Ratings

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Summary:

Lambertville, New Jersey; General Obligation

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Credit Profile		
Lambertville GO bnds		
Long Term Rating	AA/Stable	Outlook Revised
Lambertville GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Outlook Revised

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings has revised its outlook to stable from negative and affirmed its 'AA' long-term rating on Lambertville, N.J.'s general obligation (GO) debt outstanding.
- The outlook revision reflects the city's return to budgetary balance, resulting in improved financial flexibility and restoration of cash and current fund balances, which had been pressured after several years of negative operating results.

Security

The city's full-faith-and-credit pledge and agreement to levy ad valorem property taxes, without limitation as to rate or amount, secure the bonds.

Credit overview

Following five consecutive years of decreases to available current fund reserves, operational performance for the city has stabilized in the last two fiscal years, which we believe is reflective of improved budgetary management and oversight. Fiscal 2022 current fund results reported revenues less than expenses; however, this was driven by the delayed receipt of a USDA grant, the funds of which were used in 2022 but received in 2023. As such, the current fund balance improved in each of the last two fiscal years, totaling $1.1 million at fiscal year-end 2022. Management has shifted its approach to its budget by taking an aggressive stance on funding operations, utilizing less fund balance, and fully replenishing by year-end. Certain policies have been enacted to utilize increased fees and fines, including increased beverage taxes, to cover expenses, which has resulted in improved financial operations. Management plans to sustain its current fund balance above its informal target of $1.0 million, and continue rebuilding reserves with the addition of cannabis revenues, investment income, and increased fees and fines. Full regeneration of appropriated surplus is expected for both fiscal years 2023 and 2024.

Lambertville's strong economic indicators continue to support our rating, as highlighted by ongoing development and increased tourist activity, resulting in steady tax base growth. However, continuing to constrain the rating is a high overall carrying charge, which reflects pressure on the budget for the city's fixed costs, including debt, pensions, and other postemployment benefits (OPEB) that totaled 27% in fiscal 2022. The city's elevated pension burden, which is typical across New Jersey municipalities, is a credit weakness. While it is currently managing pension costs, we think the city has a limited ability to control liability growth due to state restrictions. (For more details and information on these risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.)

Given the relatively small size of the budget, even small revenue or expenditure shifts have a larger effect on operational performance and, as a result, reserve and cash levels. While we believe budgetary stability is likely over the next few years, there could be rating pressure if costs, whether fixed or operational, become outsized and are not able to be absorbed into the budget.

Other credit factors include our view of Lambertville's:

- Growing residential tax base, anchored by its location within the New York metropolitan statistical area (MSA), with above-average income levels;
- Two consecutive years of operational balance, resulting in improved current fund reserve levels that are expected to be sustained, in conjunction with an improved liquidity position in the last two fiscal years;
- Standard financial management policies, highlighted by budgeting oversight and monitoring and an informal reserve target with which the city has recently come into compliance, and a strong institutional framework score; and
- Very weak debt burden with elevated carrying charges, further stressed by our view of a large pension liability under a poorly funded pension plan, with some pressure from already elevated pension costs.

Environmental, social, and governance

We consider Lambertville's environmental risks slightly elevated, owing mainly to hurricane exposure. However, the city has an emergency management team and planning in place to help mitigate against these elevated risks. Hurricane Ida did cause significant damages to personal and public property, but the city received timely reimbursements from the Federal Emergency Management Agency (FEMA) for storm-related costs. We consider the state's governance of its pension plans and lack of a mechanism to prefund OPEB to be a weakness for all New Jersey local governments. We consider social risks as neutral in our credit analysis.

Outlook

The stable outlook reflects our view of Lambertville's return to operational balance and stabilized reserve levels, resulting from recent regeneration of surplus appropriation. Further supporting the stable outlook is continued growth in the local economy, showing year-over-year tax base growth and extremely strong income metrics.

Downside scenario

We could lower the rating if the city were to experience negative operating results, leading to a sustained deterioration of its available fund balance, or if debt, pension, or OPEB contributions increase.

Upside scenario

We could raise the rating if the city is able to continue to grow its financial position, as reflected by improved current fund reserves, to levels in line with those of higher-rated peers, in conjunction with the implementation of more robust planning practices and a lowering of its debt burden and fixed costs.

Lambertville--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	165			
Market value per capita ($)		245,974		
Population		3,882	3,708	3,720
County unemployment rate (%)		2.9		
Market value ($000)		954,871	864,288	818,923
Ten largest taxpayers % of taxable value	4.5			
Adequate budgetary performance				
Operating fund result % of expenditures		-5.7	4.8	-8.1
Total governmental fund result % of expenditures		-5.7	4.8	-8.1
Very strong budgetary flexibility				
Available reserves % of operating expenditures		16.2	17.3	11.3
Total available reserves ($000)		1,119	1,016	726
Very strong liquidity				
Total government cash % of governmental fund expenditures		29	34	11
Total government cash % of governmental fund debt service		136	137	48
Adequate management				
Financial Management Assessment	Standard			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		21.5	24.6	22.5
Net direct debt % of governmental fund revenue	202			
Overall net debt % of market value	4.1			
Direct debt 10-year amortization (%)	29			
Required pension contribution % of governmental fund expenditures		5.5		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.
Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022