

RatingsDirect®

Summary:

Clifton, New Jersey; General Obligation

Primary Credit Analyst:

Melissa Stoloff, Boston (1) 617-530-8030; melissa.stoloff@spglobal.com

Secondary Contact:

Christian Richards, Washington D.C. + 1 (617) 530 8325; christian.richards@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Related Research

Summary:

Clifton, New Jersey; General Obligation

Credit Profile

Clifton GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Clifton GO (BAM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' long-term rating on Clifton, N.J.'s existing general obligation (GO) debt.
- The outlook is stable.

Security

Clifton's full-faith-and-credit GO pledge secures the debt outstanding.

Credit overview

The rating benefits from Clifton's location and participation in the broad and diverse New York City-Northern New Jersey metropolitan statistical area (MSA) and recent economic redevelopment. Reserves have historically remained above 8% of expenses even though levels have fluctuated somewhat due to annual increases in the budgeted fund balance appropriation, even as the city has typically replenished fund balance at year-end. In the longer term, we believe that management's ability to incorporate rising costs into the budget while maintaining reserves will play a role in maintaining the city's stable budgetary performance. In addition, we could revise our view of management if the city is able to demonstrate stronger budgetary practices bringing it into compliance with its formal fund balance policy that limits budgeted fund balance appropriation to 50% of the prior year's fund balance.

The rating reflects our opinion of the city's:

- Primarily residential economy with access to the New York City-Newark MSA;
- Standard management policies and practices and a strong institutional framework score;
- Overall stable budgetary performance supporting reserve levels between 8%-11% of expenses; and
- Manageable debt profile with regular issuances for ongoing capital needs, coupled with a large pension and other postemployment benefits (OPEB) obligation.

Environmental, social, and governance

We view Clifton's environmental and social risks as neutral in our credit rating analysis. We view the state's governance of its pension plans as a weakness for New Jersey local governments. The city has updated its cyber security policy and internal controls following nonmaterial cyber incidents; we view these efforts as minimizing

potential governance risks.

Outlook

The stable outlook reflects the city's positive financial results and manageable debt profile.

Downside scenario

We could lower the rating if Clifton encounters budgetary pressure stemming from rising fixed costs, including pension and OPEB costs, resulting in utilization of reserves to bridge any imbalance.

Upside scenario

We could raise the rating if economic indicators and general fund reserves improve to levels comparable with those of higher-rated peers, coupled with moderation in the city's fixed costs and liabilities.

Credit Opinion

Mature residential local economy

Clifton is 15 miles west of New York City in Passaic County. The city's tax base is mature and primarily residential, with ample commercial and industrial sectors that account for 25% of the tax base. Despite the city's mature nature, development and redevelopment are ongoing. Residents typically find employment throughout the broader northern New Jersey and New York City employment bases. The county's unemployment rate has steadily moderated following a jump to 21% at the onset of the COVID-19 pandemic; most recent unemployment levels are 3.8% as of November 2022. The redevelopment of the former Hoffman-LaRoche property into a biotech office space is ongoing, with construction of a hotel on the property expected to begin soon, as well as redevelopment of the former Black Prince Distillery site into residential units. Clifton has payment-in-lieu-of-taxes (PILOT) agreements in place while the projects are in progress. Assessed values have steadily increased over the past few years, but because Clifton is mostly built out, tax base growth has come mostly through redevelopments of existing properties. We expect the city's economy will remain stable over the short-term and could improve over the long term as redevelopment projects are completed.

Stable performance with strong fund balance levels

Clifton's financial performance has overall been stable; it posted an operational surplus in fiscal 2021 and unaudited results for fiscal 2022 indicate another surplus. Property tax is the main revenue source at about 65% of budgeted revenues. Management is still in the process of setting a tax rate to finalize the fiscal 2023 budget. We understand officials are budgeting for increasing expenditures in contracts, pensions and salaries as well as a budgeting a \$10 million fund balance appropriation. Given its recent performance and expectations for the current fiscal year, we believe budgetary performance will likely remain adequate in the near term. The city has historically maintained available reserves above 8% of expenses, even as it typically appropriates a portion of fund balance in the next year's budget. Unaudited fiscal 2022 results show an available fund balance of about \$14.8 million, or 11% of expenses. The city has increasingly appropriated more in fund balance over the past five years, as the expected fiscal 2023 budget appropriation is about \$1.5 million over the prior fiscal year. The city has typically fully replenished appropriated reserves, and we expect it will likely maintain reserves above 8% of expenditures over the outlook horizon.

We understand the city maintains one privately placed GO issuance with a balance of \$1.2 million at the end of fiscal 2021. Proceeds were used to refund Clifton's existing series 2006 GO bonds. We do not believe this poses a material risk to the city's liquidity as there are no acceleration provisions and the bonds will mature Aug. 1, 2026.

Standard financial management policies and practices

We have revised our view of the city's formal fund balance policy given the city has increasingly appropriated more than 50% of its year-end fund balance in the subsequent budget year. Our view of additional policies including annual debt reviews and a six-year capital plan is unchanged since our last report (see summary analysis for Clifton published July 22, 2021).

Manageable debt burden with elevated pension costs

Clifton has approximately \$81.9 million in total direct debt outstanding. The city's six-year capital improvement plan for 2022-2027 totals \$103.1 million; on average, management anticipates issuing about \$9 million annually in new-money debt, which is slightly more than its annual payoff of existing debt averaging \$6.8 million over the next two years. However, we believe the city's overall debt profile will remain stable. Additionally, Clifton's pension obligations will likely remain a long-term credit pressure similar to other New Jersey municipalities. The city has limited ability to control future growth of these liabilities, given state restrictions and funding discipline, and rising pension and OPEB costs could increasingly crowd out other budgetary expenditures. For more information on our view of pensions, see our report "Pension Spotlight: New Jersey" published June 21, 2022.

Clifton, New Jersey key credit metrics				
	Most recent	Historical information		
		2021	2020	2019
Strong economy				
Projected per capita EBI % of U.S.	100	106	95	102
Market value per capita (\$)	150,906	134,486	125,296	102,842
Population		84,255	84,735	86,393
County unemployment rate(%)		8.4		
Market value (\$000)	12,714,550	11,331,152	10,616,935	10,439,905
Ten largest taxpayers % of taxable value	5.5			
Adequate budgetary performance				
Operating fund result % of expenditures		2.6	(2.2)	1.8
Total governmental fund result % of expenditures		2.6	(2.2)	1.8
Strong budgetary flexibility				
Available reserves % of operating expenditures		10.7	8.6	11.4
Total available reserves (\$000)		13,740	10,409	13,027
Very strong liquidity				
Total government cash % of governmental fund expenditures		37	31	35
Total government cash % of governmental fund debt service		577	417	478
Adequate management				
Financial Management Assessment	Standard			

Clifton, New Jersey key credit metrics (cont.)	Most recent	Historical information		
		2021	2020	2019
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		6.5	7.4	7.2
Net direct debt % of governmental fund revenue	48			
Overall net debt % of market value	1.6			
Direct debt 10-year amortization (%)	66			
Required pension contribution % of governmental fund expenditures		8.7		
OPEB actual contribution % of governmental fund expenditures		6.3		
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

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.