

Lavallette Borough, New Jersey

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Lavallette Borough, N.J.'s series 2012 general obligation (GO) general improvement refunding bonds.

The rating reflects our opinion of the borough's:

- Tourism-based local economy in Ocean County;
- Stable residential property tax base with strong wealth and income;
- Consistent finances, resulting in very strong reserves; and
- Low debt when considered as a percent of market value, coupled with limited additional capital needs.

Lavallette's full-faith-and-credit GO pledge secures the bonds. Officials intend to use bond proceeds to refund water and sewer loans, issued through the United States Department of Agriculture, for debt service savings. While the borough's GO pledge secures the bonds, we understand water and sewer utility revenue will fully support debt service.

Lavallette Borough covers two square miles in Ocean County, approximately 90 minutes from New York City and Philadelphia. The local economy centers on tourism since the borough is an established and popular vacation area along the Jersey Shore. As of the 2010 U.S. Census, the permanent population was 1,875; management, however, estimates the seasonal summer population increases to 30,000. Despite the economy's seasonal nature, unemployment averaged 6.3% in 2011, below county, state, and national rates. Median household and per capita effective buying incomes are, in our opinion, a good 105% and a strong 136%, respectively, of national levels.

While assessed value (AV) for statewide localities has been declining recently, Lavallette's property tax base has been stable and has increased by a slight 0.1% to \$1.87 billion in fiscal 2012. While market value has declined by an average of 2.7% annually since fiscal 2010, it is, in our view, a still-sizable \$2.25 billion in fiscal 2012; this translates to a market value of \$1.2 million per capita, which we consider extremely strong, albeit inflated due to Lavallette's significantly smaller permanent population. When considering seasonal population, market value is \$75,000 per capita, a level we still consider very strong. Due to its residential nature, the tax base exhibits little concentration with the 10 leading taxpayers accounting for just 2% of AV. The borough has not experienced a significant number of tax appeals, contrary to the state trend.

Lavallette's finances are, in our opinion, very strong and a key credit strength due to its stable revenue and expenditure profile and, what we regard as, its conservative management team; management has been able to operate within the state's 2% property tax levy cap while building reserves. The fiscal 2012 budget is \$7.5 million; we understand it includes a 0.5% property tax levy increase, which is well below the property tax levy cap. As such, according to officials, Lavallette will bank roughly \$152,000 of excess levy capacity for fiscal years 2013 and 2014. The budget also includes a \$775,000 surplus appropriation, which the borough expects to regenerate through positive operations. Property taxes generate 67% of budgeted revenue while locally generated miscellaneous revenue, including beach badge fees, account for 23%.

Despite Lavallette's concentration of second homes, current property tax collections remain, in our opinion, strong at about 97%.

Unaudited fiscal 2011 results indicate Lavallette ended with a \$187,000 operating surplus in the current fund that brought fund balance to \$1.2 million, or 17.9% of current fund expenditures, which we consider very strong. Fiscal 2010 was also a positive year with a \$1 million current fund balance, or 15.3% of expenditures. Year-end liquidity was, what we view as, strong in fiscal 2010: Available cash provided 147 days' operating liquidity. Lavallette contributes to state-administered pension and other postemployment benefit plans. Contributions were \$614,000, or 9% of current fund expenditures, in fiscal 2010.

Standard & Poor's considers Lavallette's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. We view the borough's budgeting as conservative, and it provides monthly revenue reports and quarterly expenditure reports to the governing body throughout the year. Management annually adopts a cash management plan that adheres to state investment guidelines and reports investment holdings to the borough council monthly. Management maintains a three-year capital improvement plan that it updates annually and that includes all funding sources. Management's informal target is to maintain \$350,000 of current fund balance after surplus appropriation, or about 5% of expenditures, to maintain sufficient cash flow throughout the year.

Overall net debt is \$10,326 per capita, which we consider very high, albeit inflated due to the relatively small permanent population. Overall net debt is just 0.9% of market value, which we consider low. When considering the seasonal summer population, debt is less than \$1,000 per capita. Carrying charges are just 7% of current fund expenditures. We consider debt amortization slow with officials planning to retire utility-related debt by 2044. We, however, understand officials plan to retire 70% of GO debt over 10 years and 100% over 14 years. According to officials, they do not plan to issue additional debt in the near future.

Outlook

The stable outlook reflects Standard & Poor's opinion of Lavallette's very strong finances, which Standard & Poor's expects the borough to maintain while operating under the property tax cap due to its comprehensive management practices and stable revenue and expenditure profile. In our view, a growing and diverse property tax base supports the rating and outlook. Due to these factors, we do not expect to change the rating or outlook within the outlook's two-year period.