

RatingsDirect®

Summary:

Camden, New Jersey; Non-School State Programs

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Credit Profile

US\$3.94 mil qualified GO rfdg bnds ser 2021 due 11/15/2028

<i>Long Term Rating</i>	A-/Stable	New
<i>Underlying Rating for Credit Program</i>	A-/Stable	New
Camden City GO (BAM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded
<i>Underlying Rating for Credit Program</i>	A-/Stable	Upgraded
Camden City GO (BAM)		
<i>Unenhanced Rating</i>	A-(SPUR)/Stable	Upgraded
<i>Underlying Rating for Credit Program</i>	A-/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings raised its rating on the City of Camden, N.J.'s general obligation (GO) debt to 'A-' from 'BBB+'. At the same time, S&P Global Ratings assigned its 'A-' rating to the city's \$3.94 million series 2021 qualified GO refunding bonds. The outlook is stable.

The one-notch upgrade reflects our view of Camden's improved financial position in recent years, including a substantially stronger reserve position, with available reserves increasing to \$23.6 million, or nearly 13% of operating expenditures, at fiscal year-end 2020 according to audited results. The city's improved financial performance and flexibility coincides with economic investment into Camden that according to management has totaled more than \$2.5 billion since 2013, with another \$518 million planned for completion by 2025.

The city's full faith and credit and resources pledge and agreement to levy ad valorem property taxes without limitation as to rate or amount secure the series 2021 GO bonds as well as the outstanding GO bonds.

Camden's GO bonds are also supported by New Jersey's Municipal Qualified Bond Act (QBA) Program. The state enhancement program under the QBA is intended to facilitate distressed municipal issuers' access to the capital markets. Under the act, the state treasurer is instructed to withhold qualifying state aid from an issuer municipality and instead direct that aid to a paying agent to service debt on bonds issued pursuant to the QBA. To qualify for this program, the issuer municipality--in this case, Camden--must receive state approval for the bonds and the scheduled debt service. The state credit enhancement rating is one notch below the State of New Jersey's general creditworthiness, reflecting the application of our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," criteria (published Nov. 20, 2019), and is below that of Camden's general creditworthiness.

Credit overview

The city's general creditworthiness is characterized by improved economic and financial momentum over the past decade, which is in part a result of economic incentives provided by Camden, in addition to a renewed focus on enhancing the city's financial position. Over the past three fiscal years, the city has increased reserves to nearly 13% of operating expenses as of June 30, 2020, nearly double the available reserves on a percentage basis compared with year-end fiscal 2018 (6.8%). Although the city is highly reliant on support from New Jersey, with state revenues accounting for more than two-thirds of current fund revenues, we believe Camden's relationship with the state has been beneficial to the city, both financially as well as operationally through assistance in planning. We note that a portion of the city's annual state aid--transitional aid, which accounts for about 10% of Camden's budget--must be approved and appropriated each year by the state, adding some uncertainty to revenues in our view. However, we believe there remains a strong incentive for New Jersey to maintain its strong financial support, which is key to the city's financial and economic well-being. Furthermore, we understand the city's positive financial momentum has continued throughout the COVID-19 pandemic.

The rating reflects our opinion of the following factors for Camden:

- Historically challenging economic environment, including high unemployment, low wealth and income levels, and population declines;
- A history of reliance on state oversight and state support as well as standard financial management policies and practices;
- Improved financial performance and reserve levels in recent years;
- Strong and stable debt profile aided by rapid amortization, offset in part by poorly funded retirement liabilities with likely increasing costs; and
- Strong institutional framework.

Environmental, social, and governance (ESG)

We believe Camden's environmental risks are consistent with those of other New Jersey municipalities and lower than those of the state's coastal communities, where tax bases are more vulnerable to hurricanes and other severe weather events even though the city does experience some flooding.

We view Camden's governance risks as being generally in line with those of peers, although pension funding discipline and assumption choices at the state level will likely lead to elevated and volatile costs for the city.

We consider Camden's social risks as somewhat elevated due to modest albeit prolonged population declines, totaling nearly 25% since 1970, in addition to historically high crime rates, which although still high compared with national levels have dramatically improved over the past decade, and very low income levels that point to a tax base with limited revenue-raising flexibility.

Stable Outlook

Upside scenario

We believe new capital investment and an improved safety record should help support continued financial stability and potentially reduce Camden's reliance on state revenues. If the city continues to experience economic growth, resulting in improved wealth and income indicators thereby lessening its dependence on state aid, while maintaining at least stable financial performance and current fund reserves, we could raise the rating.

Downside scenario

Should budgetary performance weaken or should the state reduce aid leading to the use of reserves to bridge the gap between revenue and expenditures, this could pressure the rating.

Credit Opinion

Historically challenging economic environment, including high unemployment, low wealth and income levels, and population declines

Camden is the seat of Camden County and is in the Philadelphia-Camden-Wilmington metropolitan statistical area, which we consider to be broad and diverse. The city covers a land area of 9.8 square miles directly across the Delaware River from Philadelphia. The population has decreased to its current level of 71,791 from 102,551 in 1970, or by about 30% over the past five decades; the rate of decrease, however, had greatly diminished before the onset of the COVID-19 pandemic, which management attributes to improved economic momentum and a growing allotment of new housing.

The city's wealth and income levels have historically been well below national levels, with a projected per capita effective buying income of 41.7% of the national level and a per capita market value equal to \$26,394 in 2021, which, in our view, indicates a limited tax base supporting the debt and is a negative credit factor. However, the market value per capita does not take into consideration Camden's extensive agreements for payments-in-lieu-of-taxes (PILOTs) under which the non-land portion of projects is excluded from the tax base. If added to the tax base, it would result in a higher amount above \$30,000 per capita.

In addition, the local unemployment rate was elevated in 2020 as indicated by the county's unemployment rate of 10.1% in 2020. However, Camden County's unemployment rate has improved significantly over the past year and stood at just 5.8% as of October 2021. Although unemployment in Camden County is currently slightly better than the national average in 2021, unemployment in the city has historically been very high, in our view, ranging from 10%-20% in most years. However, notably, the city's unemployment rate reached a 30-year low of just 7.7% prior to the onset of the COVID-19 pandemic. As of May 2021, the city's unemployment rate reached 14.4%, well above county, state, and national levels. Nevertheless, management indicates significant redevelopment efforts in Camden and economic investments spurred, in part, by New Jersey Economic Development Authority economic incentives provided through the Economic Opportunity Act of 2013 should continue to help lower the city's unemployment rate.

Management cites economic development as a main focus and the key toward improving Camden's growth. In that regard, we understand that nearly \$2.5 billion in capital investment has been infused into the city since 2013, while an additional \$518 million under development or planned, with completion dates occurring within the next three years. Recent developments include the construction of a new corporate headquarters and practice facility for the

Philadelphia 76ers, Subaru's North American headquarters, a total of \$466 million in education and medical facilities with another \$175 million planned, and \$336 million invested in Camden's schools. A couple of noteworthy projects currently planned for construction over the next few years include the redevelopment of the Walter Rand Transportation Center; the redevelopment of an existing transit hub in the city; and the Ablett Village CHOICE Neighborhood Initiative Revitalization, a 425 mixed-income housing complex. We note the city's equalized value has not experienced a corresponding increase yet from developments over the past decade, primarily due to Camden's tax incentive programs aimed at spurring growth provided through the Economic Opportunity Act. Many of these large-scale developments, which have been constructed since 2013, have a 10-year (PILOT) agreement. Management indicates that the city's equalized value figures will begin reflecting increases as these PILOT agreements expire. Specifically, management indicates that ratables under PILOT agreements currently exceed \$500 million.

Regarding new investments into the city, management also highlights Camden's waterfront development project along the Delaware River. Public utility American Water opened its headquarters in December 2018, representing a landmark development along the city's waterfront. Adjacent to American Water's new headquarters is a new 18-story office complex as well as public open space. We understand that the masterplan vision for the rest of the waterfront area consists of apartments and 1.7 million square feet of retail space, which will be constructed over the next few years, and that should generate significant future local revenues for the city.

Management believes additional investments in Camden are likely given current economic development momentum and improving crime rates. The city enacted large-scale reforms and investments in public safety, which we understand have contributed to reducing crime rates to a 30-year low. As a result, the city's murder rate and high crime rate declined 60% and 40%, respectively, relative to five years ago. We believe improving safety contributes to Camden's ability to attract new businesses.

The current property tax base is diverse, with the 10 leading taxpayers accounting for just 12.7% of assessed value (AV). The tax base is primarily residential, which accounts for nearly two-thirds of AV, and 19% commercial. Historically, current property tax collections have been well below average in our view. However, we note collections have averaged about 90% over the past five years, a level substantially higher than the 81% collection rate in 2005. Should these changes continue over the long term and translate into a market value per capita in excess of \$30,000, our view of the city's economic profile could improve and we could potentially raise our rating on Camden.

A history of reliance on state oversight and a standard Financial Management Assessment

Camden has relied heavily on state oversight since 2002. In addition, the city has 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.

In 2002, as part of the Municipal Rehabilitation & Economic Recovery Act, the city became state controlled to stabilize it financially and economically. The state oversight plan has been modified in subsequent renewals. New Jersey no longer completely controls Camden but rather assists with its annual budgeting and planning process to maintain sound operations. City management indicates its relationship with the state is collaborative. Nevertheless, Camden remains highly dependent on the state's assistance for operational and economic planning, as well as financial support, with two-thirds of its current fund revenues derived from New Jersey. Although there are a number of benefits to this

relationship, we believe the city's reliance on state oversight and funding leave Camden somewhat vulnerable to the state's fiscal pressures, which we believe could intensify in future years.

Despite the oversight that remains integral to the city's operations, we believe that the current administration maintains sound budgeting practices with a focus on a stable financial position through continued fiscal practices and policies. Financial management strengths include regular budget monitoring with formal reports to the city council monthly. In addition, Camden maintains a five-year capital improvement plan that identifies funding sources and that it updates annually. Management indicates it annually updates its three-year long-term financial projections as part of the budgeting process. In addition, the city formalized a debt management and fund balance policy. The debt policy follows state guidelines, including the maintenance of overall debt service less self-supporting debt at less than 20% of expenditures. The fund balance policy indicates a target year-end fund balance of approximately 10% of the previous year's operating expenditures.

In the near term, we believe the management team's strengths underpin the positive financial trajectory. If eventually the city's budgeting and managerial oversight becomes independent of state oversight, our view of management conditions could change and potentially lead to a higher rating.

Improved financial performance and reserve levels, with strong state support

Over the past few years, the city's financial position has steadily improved because of management's concerted effort to improve operations and increase available reserves.

According to audited fiscal 2020 results as of June 30, 2020, the city ended the year with a \$3.4 million increase to reserves, its fourth surplus within the past five years. Management attributes the surplus operations to conservative budgeting and to its ability to control costs. One measure Camden took was signing into a 10-year police service agreement with Camden County in 2013, in which the city pays an annual fee to the county for public safety services the county provides. Specifically, the Camden County Police Department created a new metropolitan division for the approximately 400 officers that patrol the city. The fee totaled \$70 million in fiscal 2020 and has automatic escalators for cost-of-living and inflation adjustments. Camden has an option to renew the agreement in 2024. We also understand that this agreement has both saved the city a considerable amount in annual expenses and significantly improved public safety through reduced crime rates.

In 2020, the city switched from a June 30, fiscal year-end to a Dec. 31, fiscal year-end for a number of reasons, including more informed planning with a better idea of state aid, and potentially lessening the need for transitional aid. The unaudited transitional year results show a sizable \$13.4 million increase in reserves to \$37 million, or about 33% of expenses. However, we understand that much of this increase to reserves relates to timing of the audit transition and the receipt of much of the state aid before Dec. 31, 2020. As a result, management indicates that reserves are expected to decrease in fiscal 2021. The budget shows the appropriation of \$20 million in reserves and management indicates that although management expects to replenish more than half of this amount, reserves could decrease by as much as \$10 million-\$13 million for the year. Despite the expected decrease, we understand year-end fiscal 2021 reserves should remain above 13% of expenses and increase relative to available reserves as of June 30, 2020, indicating the city remains on an upward financial trajectory.

Supporting the city's financial profile is the allocation of approximately \$61.6 million in American Rescue Plan Act

funds, half of which has already been received. We understand management intends to use \$6 million for revenue loss in fiscal 2022 and \$4 million for facility construction. The remaining \$20 million already received will likely be used for several one-time projects.

Although the budget for fiscal 2022 will not be finalized for another few months, we understand that once again management does not anticipate any material changes to the budget from the previous year or any material change to reserves.

We note the city is highly dependent on the state for revenue, with two-thirds of current fund revenue coming from New Jersey. The remaining one-third is composed primarily of property taxes and PILOT payments, in addition to other local tax revenues. We believe Camden's reliance on state funding leaves the city somewhat vulnerable to reduced revenues. In particular, we believe that a portion of its transitional aid could be cut, particularly if state revenues fall below expectations thereby pressuring New Jersey's budget. Nevertheless, we believe the state and the city have a history of working closely together and that New Jersey is unlikely to leave the city with a large unexpected budgetary gap by cutting transitional aid without some sort of increase to Camden's local revenues.

Strong and stable debt profile aided by rapid amortization

Camden has approximately \$47 million of direct debt outstanding, with 84% of the direct debt scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We understand the city could issue about \$3 million in debt, on average, per year, most likely to be financed initially through bond anticipation notes before being permanently financed every few years through a consolidated long-term issuance. In addition, management indicates it could issue about \$25 million for a water treatment system planned over the next year; however, utility revenues are the expected source of repayment for the bonds. As part of this expected financing, we understand the city is in the process of updating a utility rate study to determine how much rates will need to increase to support operations and additional utility capital needs. We do not anticipate Camden's current needs materially changing the city's debt profile.

Poorly funded retirement liabilities with likely increasing costs in the medium term

- We view pension and other postemployment benefit (OPEB) liabilities as a source of credit pressure for the City of Camden, 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 pension liabilities given state restrictions on prefunding the liability.
- OPEBs are, by state statute, funded on a pay-as-you-go basis. Ordinarily, claims volatility as well as medical cost and demographic trends, would likely to lead to escalating costs.

Camden participates in the following state-administered pension plans:

- Police and Firemen's Retirement System (PFRS): With a proportional share of the net pension liability (NPL) equal to \$59.1 million.
- Public Employees' Retirement System (PERS): With a proportional share of the NPL equal to \$39.4 million.
- A defined-benefit health care plan that provides health care benefits to eligible retirees and their dependents: 0% funded, with an OPEB liability of about \$114.0 million as of June 30, 2020.

The city's combined required pension and actual OPEB contributions totaled 8.1% of current fund expenditures in 2020. Of that amount, 4.1% represented required contributions to pension obligations, and 4.0% represented OPEB payments. Camden made its full required pension contribution in 2020.

Although the borough funds 100% of the actuarially determined contribution (ADC), contributions remain short of static and minimal funding progress in part due to poor assumptions and methodologies, but also due to New Jersey's historical underfunding of the state's 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.

Camden provides OPEBs to eligible retirees through the State Health Benefits Program, a cost-sharing, multiple-employer, defined-benefit postemployment health care plan administered by the state. These benefits are payable on a pay-as-you-go basis with no mechanism in place under state law that allows for prefunding.

Strong institutional framework

The institutional framework score for New Jersey municipalities is strong.

Camden, N.J.--Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Very weak economy				
Projected per capita EBI % of U.S.	40			
Market value per capita (\$)	26,394			
Population (no.)	71,791	75,622	76,445	76,470
County unemployment rate(%)		10.1		
Market value (\$000)	1,924,025	1,831,882	1,768,470	
Ten largest taxpayers % of taxable value	10.0			
Strong budgetary performance				
Operating fund result % of expenditures		1.8	3.5	(2.4)
Total governmental fund result % of expenditures		1.8	3.5	(2.4)
Strong budgetary flexibility				
Available reserves % of operating expenditures		12.8	9.8	6.8
Total available reserves (\$000)		23,588	20,222	13,013
Very strong liquidity				
Total government cash % of governmental fund expenditures		37	27	14
Total government cash % of governmental fund debt service		2,442	1,985	1,035
Weak management				
Financial Management Assessment	Standard			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		1.5	1.4	1.3

Camden, N.J.--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Net direct debt % of governmental fund revenue	11			
Overall net debt % of market value	1.4			
Direct debt 10-year amortization (%)	89			
Required pension contribution % of governmental fund expenditures		4.1		
OPEB actual contribution % of governmental fund expenditures		4.0		

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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2021 Update Of Institutional Framework For U.S. Local Governments

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