

# RatingsDirect®

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## Summary:

# Camden, New Jersey; Non-School State Programs

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### Credit Profile

Camden qualified GO Non-Sch St Prog (BAM)

*Unenhanced Rating* A(SPUR)/Stable Upgraded

*Underlying Rating for Credit Program* A/Stable Upgraded

Camden City qualified GO rfdg bnds

*Long Term Rating* A/Stable Upgraded

*Underlying Rating for Credit Program* A/Stable Upgraded

Camden City GO (BAM)

*Unenhanced Rating* A(SPUR)/Stable Upgraded

*Underlying Rating for Credit Program* A/Stable Upgraded

Many issues are enhanced by bond insurance.

## Credit Highlights

- S&P Global Ratings raised its rating on the City of Camden, N.J.'s general obligation (GO) debt to 'A' from 'A-'.  
• The outlook is stable.
- The one-notch upgrade is based on the city's notable improvement in reserves that, although augmented by the receipt of federal stimulus funds, is also due to what we consider improved management conditions, which have supported a track record of solid financial performance, as well as improved economic momentum and increased economic investment into the city, with 29% market value growth over the past five years.

## Security

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 secures its GO bonds outstanding.

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. 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

Camden's general creditworthiness consists of improved economic and financial momentum over the past decade, due in part to economic incentives provided by the city, in addition to a renewed focus on enhancing its financial position. Within the past three fiscal years, the city has scrubbed its financial processes, reducing the number of accounts used,

eliminating interfund receivables, and strengthening reserves. In addition, the city has increased its property tax rate in each of the past two years as well as water and sewer utility rates to help improve overall financial performance. As a result of these measures, and aided by the infusion of increased state transitional aid in fiscal 2022 (\$24 million) as well as \$61.6 million in American Rescue Plan Act funds, the city generated a massive \$65.6 million surplus in fiscal 2022, dramatically increasing reserves to \$82.8 million, or nearly 43% of operating expenses. This is a high-water mark for the city and is materially higher than reserves at the end of fiscals 2020 and 2021.

Following a strong fiscal 2022 year, unaudited results for fiscal 2023 indicate continued fiscal strength, with management projecting a fiscal year-end surplus of nearly \$12 million, increasing current-fund year-end reserves to \$94.4 million, or an estimated 46% of expenses. Management indicates there are no plans to materially draw down reserves at this time. However, we also understand the city could face a budget gap of as much as \$25 million in fiscal 2025 depending on certain cost increases and state aid appropriations. Management indicates it will attempt to close any gap through a mix of increased revenues, which might be difficult due to some of the limitations of Camden's tax base, as well as through cost-containment measures.

We understand the city's current capital needs consist mainly of water and sewer upgrades, totaling \$55 million and \$15 million, respectively, as well as \$5 million in road upgrades. The city plans to fund the water and sewer projects through the New Jersey Infrastructure Bank, which offers interest free financing and significant principal forgiveness. The road upgrades will be funded with supplemental state aid. In addition, the city expects to make a large water and sewer infrastructure investment over the next six years but management indicates the utility capital needs should be paid for with utility revenues and as such we do not expect the city's low debt to materially change.

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

- Historically challenging economic environment, including high unemployment, low wealth and income levels, and long-term population declines; however, we note the city has experienced improved economic momentum over the past decade;
- Improved internal controls and financial practices in addition to a history of reliance on state oversight and state support, as well as a strong institutional framework score;
- Improved financial performance and reserve levels in recent years, aided by federal stimulus funds, property tax and utility rate increases, and reconciliation of interfund receivables, with fiscal 2022 year-end reserves at a very strong 43.5% of expenses; and
- Strong and stable debt profile supported by rapid amortization, offset in part by poorly funded retirement liabilities with likely increasing costs.

### **Environmental, social, and governance**

We believe Camden's environmental and governance risks as being generally credit neutral within our analysis, 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 elevated due to prolonged population declines, totaling nearly 30% 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.

## Outlook

The stable outlook reflects our view that the city will maintain its strong overall financial profile throughout the two-year outlook horizon, supported by strong state support and good recent economic momentum.

### 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.

### Upside scenario

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 and strong financial performance and current fund reserves, we could take a positive rating action.

## 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 is located directly across the Delaware River from Philadelphia. The population has decreased to its current level of 70,996 from 102,551 in 1970, or by about 31% over the past five decades, although the rate of decrease, before the onset of the COVID-19 pandemic, had greatly diminished, which management attributes to improved economic momentum and a growing allotment of new housing.

The city's wealth and income levels have historically been very low compared with national and state levels, which, in our view, indicates a limited tax base supporting the debt. However, the city's low market value per capita does not take into consideration Camden's extensive agreements for payments-in-lieu-of-taxes under which the non-land portion of projects is excluded from the tax base if added to the tax base. In addition, management notes that its improved financial performance is in part driven by economic investment into the city, which according to management has totaled more than \$2.5 billion since 2013, with a significant amount of development still in the pipeline. Notably, the state has committed \$250 million into redoing the Walter Rand Transportation Center; Cooper University Hospital has announced a \$2 billion expansion over a 10-year period; and Virtua Health has announced a \$500 million expansion in the city. Management indicates significant redevelopment efforts in Camden and economic investments spurred, in part, by economic incentives provided through the Economic Opportunity Act of 2013, should continue to provide good growth and help keep the city's unemployment rate below 10% (7.3% in 2022).

### Improved financial policies and practices have supported improved financial performance

S&P Global Ratings' view of Camden's management conditions has improved to adequate from weak based on city's improved financial practices and recent adherence to its 10% reserve policy according to audited fiscal 2022 results

and unaudited fiscal 2023 results. Furthermore, the city indicates it has begun generating six-year long-term financial projections to aid in its budgeting process.

Since 2002, Camden has relied heavily on state oversight. 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. Financial management strengths include regular budget monitoring with formal reports to the city council monthly. In addition, Camden annually updates a six-year capital improvement plan. 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.

### **Improved financial performance and reserve levels, with strong state support and federal stimulus**

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

Although the city is highly reliant on support from New Jersey, with state revenues historically 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 comes in the form of transitional aid, which historically has accounted for nearly 10% of Camden's budget and 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. In addition, 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**

We understand the city could issue about \$2 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, primarily for road improvements. However, in the short-term, the city expects to fund general capital projects through supplemental state aid and federal stimulus funds. Given this, 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 Camden, as with most New Jersey local governments.
- OPEBs are, by state statute, funded on a pay-as-you-go basis.

Camden participates in the following state-administered pension plans:

- Police and Firemen's Retirement System, with a proportional share of the net pension liability (NPL) equal to \$54.5 million.
- Public Employees' Retirement System, with a proportional share of the NPL equal to \$30.5 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 \$187.4 million as of June 30, 2022.

### Camden, New Jersey--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
<b>Very weak economy</b>				
Projected per capita EBI % of U.S.	43			
Market value per capita (\$)	32,181	29,286	25,537	
Population (no.)	70,996	70,996	75,342	71,791
County unemployment rate(%)	4.0			
Market value (\$000)	2,284,734	2,079,195	1,924,025	
Ten largest taxpayers % of taxable value	10.0			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		33.7	(9.2)	8.8
Total governmental fund result % of expenditures		33.7	(9.2)	8.8
<b>Strong budgetary flexibility</b>				
Available reserves % of operating expenditures		42.5	7.0	29.8
Total available reserves (\$000)		82,791	17,166	37,166
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		80	22	48
Total government cash % of governmental fund debt service		4,707	2,271	4,432
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Very strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		1.7	1.0	1.1
Net direct debt % of governmental fund revenue	12			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	96			
Required pension contribution % of governmental fund expenditures	4.5			
OPEB actual contribution % of governmental fund expenditures	0			

**Camden, New Jersey--Key credit metrics (cont.)**

	<u>Most recent</u>	<u>Historical information</u>		
		2022	2021	2020

**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

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