

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings downgrades South Brunswick, NJ's issuer and GO ratings to A2 from A1; assigns MIG 1 to 2024A notes**

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28 Aug 2024

New York, August 28, 2024 -- Moody's Ratings (Moody's) has downgraded the township of South Brunswick, NJ's issuer and general obligation ratings to A2 from A1. Additionally, we have assigned a MIG 1 to the township's \$21.3 million Bond Anticipation Notes, Series 2024A. The end of fiscal 2023, the township had approximately \$66 million in total debt outstanding.

The downgrade to A2 from A1 reflects the weakening financial position expected in 2023 to 6.8% of revenues compared to 11% in 2022.

#### RATINGS RATIONALE

The downgrade of the issuer rating to A2 from A1 reflects the township's narrow reserve position that is expected to decline to just 6.8% of revenues based on unaudited fiscal 2023. The township's past financial management team saw significant turnover during the pandemic and has been rectified during fiscal 2024. The turnover led to weaknesses in financial reporting and oversight in operations. The fiscal 2024 budget is still in progress but it is expected that with material tax increases and already stronger non-tax revenue collections, fund balance will rebound well in 2024. Management is a driver of this rating action given the past weak financial oversight. The A2 incorporates the township's very strong local economy with above-average resident income and wealth levels. Leverage is above average at 395% of revenues post issuance. Leverage is driven by state-administered pension and OPEB liabilities.

The downgrade of the general obligation rating to A2 from A1 reflects downgrade of the issuer rating. The bonds benefit from the township's unlimited ad valorem tax pledge.

The MIG 1 reflects the township's sufficient long-term rating, as evidenced by its A2 long-term rating, along with its history of market access.

## RATING OUTLOOK

We do not assign outlooks to local government issuers with this amount of debt outstanding.

## FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Reserves nearing 15% of revenues
- Decline in leverage to below 300% of revenues
- Stabilization in management

## FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Inability to realize fund balance growth in 2024 and a sustainable fiscal 2025 budget
- Sustained increase in leverage to above 450% of revenues
- Downgrade of the township's long-term credit quality (short-term)

## LEGAL SECURITY

The Notes are valid and legally binding obligations of the Township, and the Township has pledged its full faith and credit for the payment of the principal of and interest on the Notes. The Township is required by law to levy ad valorem taxes upon all the taxable property within the Township for the payment of the principal of and interest on the Notes without limitation as to rate or amount.

The township's outstanding long-term general obligation debt benefits from the township's unlimited ad valorem tax pledge.

## USE OF PROCEEDS

The notes will be used to provide original financing for various township-wide improvements.

## PROFILE

South Brunswick Township is located in Middlesex County (Aaa stable) in east central New Jersey (A1 positive), approximately 20 miles northeast of Trenton (Baa2).

## METHODOLOGY

The principal methodology used in the issuer and long-term ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moody.com/rmc-documents/425429>. The principal methodology used in the short-term rating was US Municipal Short-term Debt Methodology published in May 2023 and available at

<https://ratings.moodys.com/rmc-documents/398329>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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For provisional ratings, the Credit Rating Announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating.

Moody's does not always publish a separate Credit Rating Announcement for each Credit Rating assigned in the Anticipated Ratings Process or Subsequent Ratings Process.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

At least one ESG consideration was material to the credit rating action(s) announced and described above. Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at [https://ratings.moodys.com/documents/PBC\\_1355824](https://ratings.moodys.com/documents/PBC_1355824).

Please see <https://ratings.moodys.com> for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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