

‘AAA’

Rating Position Paper

Presentation for the New Jersey Municipal Management Association (NJMMA)
New Jersey League of Municipalities’ Annual League Convention
Thursday, November 17, 2016

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'AAA' Rating Position Paper

- Each year all of New Jersey's 365 municipalities are required to undertake a credit rating of their financial well-being – local government's annual physical examination. The credit rating helps determine how costly it will be for municipalities to get money from investors for long-term projects.

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- Criteria for establishing government credit rating:
 - Institutional framework 10%
 - Economy 30%
 - Management 20%
 - Budgetary flexibility 10%
 - Budgetary performance 10%
 - Liquidity 10%; and
 - Debt & contingent liabilities 10%

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- “Credit agencies look for evidence of professionalism and financial responsibility in account structures, reporting procedures, budgetary and financial planning processes, and financial control mechanisms.” (Source: Local Government Budgeting: A Managerial Approach Gerasimos A. Gianakis and Clifford P. McCue)

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- The following fiscal policies and practices are in place in Montville Township which have led to a 'AAA' bond rating:
 - **STRONG MANAGEMENT**
 - Annual budget preparation begins in August each year
 - Quarterly budget-to-actual reporting
 - Three (3) year long-term financial plan
 - Six (6) year long-term capital improvement plan
 - Formal cash management plan
 - Long-Term Financial Planning Committee

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- BUDGETARY FLEXIBILITY
 - Staying below the 2% budget cap
 - Maintaining a sufficient Cap Bank
 - Reserve accounts
 - Tax Appeal Reserve
 - Accumulated Absences Reserve
 - Storm Recovery/Snow Removal Trust Reserve

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- BUDGETARY PERFORMANCE
 - This analytical assessment criterion focuses on both prior and future budgetary performances from a general fund and total governmental funds perspective and how they will impact fund balance.
 - Strategic Planning
 - Long-Term Maintenance Planning

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- LIQUIDITY

- By utilizing the above-mentioned financial policy controls, a municipality should be able to maintain strong liquidity
 - For example, in Montville Township, the total cash available is 24.3% of our total governmental fund expenditures and 121.3% of our governmental debt service.

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- DEBT and CONTINGENT LIABILITY PROFILE
 - This analytical assessment criterion focuses on two (2) measurements:
 - Total governmental funds debt service as a percentage of total governmental funds expenditure
 - Net direct debt as a percentage of total governmental funds revenue

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- Conclusion

- In summary, Montville Township received the Triple A Bond Rating for the past nine (9) years because we have instituted the sound financial policies and practices outlined in this position paper.