S&P Global Ratings

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Summary:

Margate City, New Jersey; General Obligation; Note

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Credit Profile		
US$13.92 mil BANs ser 2023 due 11/08/2024		
Short Term Rating	SP-1+	New
US$11.87 mil GO bnds ser 2023 due 11/01/2035		
Long Term Rating	AA+/Stable	New
Margate City BANs		
Short Term Rating	SP-1+	Affirmed
Margate City GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to Margate City, N.J.'s estimated $11.9 million series 2023 general obligation (GO) bonds.
- At the same time, S&P Global Ratings assigned its short-term 'SP-1+' rating to the city's approximate $13.9 million GO bond anticipation notes (BANs).
- Finally, S&P Global Ratings affirmed its 'SP-1+' short-term rating and 'AA+' long-term rating on the city's previously issued GO debt.
- The outlook is stable.

Security

The city's full faith and credit, including its requirement to levy ad valorem property taxes without limitation as to rate or amount, secures the series 2023 issuance and the unlimited GO debt outstanding. The short-term note rating reflects our criteria for evaluating and rating BANs. Margate City maintains a very strong capacity to pay principal and interest when the notes come due. We view the city's market risk profile as low because it has strong legal authority to issue long-term debt to take out the notes and is a frequent debt issuer that regularly provides disclosure to market participants. Proceeds from the bonds will be used to refund the city's 2022 notes maturing Nov. 29, 2022, to finance various capital improvement projects for the city, water and sewer utility projects, and school notes.

Credit overview

The long-term rating reflects our view of the city's substantial income indicators as a wealthy, coastal community in New Jersey with good proximity to Philadelphia (60 miles) and New York City (110 miles). A large leisure and hospitality employment base, resulting from the city's status as a vacation destination and close proximity to Atlantic City, supports Margate's economy. Despite this, 97% of citywide assessed value is classified as residential and residential homes represent seven of the top 10 taxpayers. We note that the city has increased its reserve position to insulate itself against unexpected events, including weather events and flooding.

Adding to the city's stability is its revenue profile with property taxes as the primary revenue source, consistently topping 75% of total revenue. Moreover, while the city regularly collects more than 98.0% of its tax levy, it generally budgets conservatively, using a 96.5% tax collection rate, providing a reliable budgetary cushion at year end. The city's approximately $38.0 million 2023 budget includes a $5.4 million reserve appropriation, but management expects to fully regenerate this surplus come year-end. Likewise, management expects the 2024 budget to be in line with that of previous years, with no major changes in fund balance appropriation. We note that the city adopted a 20%-30% reserve policy in September 2023, for the goal of ensuring financial stability. Although escalating pension contributions may require additional expenditures, the city does not provide retiree health care benefits, eliminating fiscal pressure associated with funding this liability. (For more information on state pension risks, see "Pension Spotlight: New Jersey," published June 21, 2022, on RatingsDirect.)

The rating further reflects our view of the city's:

- Wealthy, residential economy with steady assessed valuation growth over the past five years;
- Disciplined and reliable financial management policies and planning and strong institutional framework score;
- Strong trend of positive budgetary performance, enabling a nominal doubling reserves in fiscal years 2016 to 2022, in addition to about $4 million in banked levy cap from previous years, providing additional financial flexibility; and
- Manageable debt burden that we consider low as a percentage of market value, with a debt management schedule that is informal though it has been traditionally followed (we note that the city intends to permanently finance the BANs outstanding in 2024, which would improve the amortization of principal outstanding even further).

Environmental, social, and governance

We analyzed Margate's environmental, social, and governance risks relative to the city's economy, management, financial measures, and debt and liability profile. We view Margate's physical risks as elevated given its coastal exposure to the Atlantic Ocean. Because of its shoreline location, the city experiences coastal flooding, including recently as a result of Hurricane Ian (2022), which caused minor beach erosion. The city has strategically increased reserves as a contingency measure, and purposefully addresses flooding risk in its capital plan through continuous drainage system and bulkhead improvements. In addition, the city collaborates with the Atlantic City Office of Emergency Management on its Hazard Mitigation Plan. We view the city's social and governance risks as neutral in our credit analysis.

Outlook

The stable outlook reflects S&P Global Ratings' opinion of Margate's extremely strong wealth levels and its strong management team that adheres to conservative budgeting to maintain reserves. Furthermore, given the lack of other postemployment benefits liability, we believe that the city will absorb its higher pension contributions without material deterioration in its financial position. Therefore, we do not expect to change the rating during the outlook period.

Downside scenario

If the city is unable to continue managing increasing pension costs, weakening its financial performance and leading to a significant reduction in reserves, or if a major weather event impairs liquidity, we could lower the rating.

Upside scenario

Although we do not expect to do so during the outlook period, we could raise the rating if the city's debt and liability profile were to improve to very strong levels that are commensurate with those of higher-rated peers.

Margate City key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI as % of U.S.	181			
Market value per capita ($)		1,011,935		
Population		5,582	5,368	5,324
County unemployment rate (%)		5.1		
Market value ($000s)		5,648,623	4,753,398	4,348,611
Ten largest taxpayers as % of taxable value	0.8			
Strong budgetary performance				
Operating fund result as % of expenditures		1.2	2.1	2.4
Total governmental funds result as % of expenditures		1.2	2.1	2.4
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		27.8	27.4	25.5
Total available reserves ($000s)		9,185	8,773	8,084
Very strong liquidity				
Total government cash as % of governmental funds expenditures		54	49	46
Total government cash as % of governmental funds debt service		369	327	305
Strong management				
Financial management assessment	Good			
Adequate debt and long-term liabilities				
Debt service as % of governmental funds expenditures		14.5	15.0	15.1
Net direct debt as % of governmental funds revenue	125			
Overall net debt as % of market value	1.6			
Direct debt 10-year amortization (%)	69			
Required pension contribution as % of governmental funds expenditures		9.2		
OPEB actual contribution as % of governmental funds expenditures		0		
Strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.