

## CREDIT OPINION

22 August 2023



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# Borough of Hawthorne, NJ

## Update to credit analysis

### Summary

[Hawthorne](#), NJ (Aa2) benefits from above-average wealth and income and strong, stable reserves. Leverage is manageable, largely driven by pensions.

### Credit strengths

- » Strong and stable finances
- » Above-average resident wealth and income

### Credit challenges

- » Moderate fixed costs
- » Average leverage

### Rating outlook

The stable outlook reflects our expectation that the borough's economy and finances will remain strong.

### Factors that could lead to an upgrade

- » Increased resident wealth and income
- » Continued economic expansion

### Factors that could lead to a downgrade

- » Decrease in resident wealth and income
- » Material increase in leverage
- » Sustained draws on reserves and liquidity

## Key indicators

Exhibit 1

### Hawthorne (Borough of) NJ

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	135.2%	138.1%	135.8%	N/A	115.0%
Full Value (\$000)	\$2,601,216	\$2,620,400	\$2,682,633	\$2,859,937	\$2,649,338
Population	18,784	18,762	19,507	N/A	22,694
Full value per capita (\$)	\$138,480	\$139,665	\$137,522	N/A	\$108,666
Economic growth metric (%)	N/A	-0.5%	-0.6%	N/A	-0.5%
<b>Financial Performance</b>					
Revenue (\$000)	\$25,623	\$26,789	\$28,440	\$28,328	\$48,404
Available fund balance (\$000)	\$11,985	\$12,249	\$14,672	\$14,188	\$24,069
Net unrestricted cash (\$000)	\$27,562	\$29,406	\$33,250	\$32,435	\$32,092
Available fund balance ratio (%)	46.8%	45.7%	51.6%	50.1%	51.0%
Liquidity ratio (%)	107.6%	109.8%	116.9%	114.5%	69.0%
<b>Leverage</b>					
Debt (\$000)	\$19,429	\$19,301	\$19,940	\$17,883	\$34,496
Adjusted net pension liabilities (\$000)	\$31,885	\$55,413	\$51,105	\$38,445	\$55,543
Adjusted net OPEB liabilities (\$000)	\$0	\$0	\$11,669	\$14,722	\$6,316
Other long-term liabilities (\$000)	\$0	\$0	\$0	\$0	\$1,623
Long-term liabilities ratio (%)	200.3%	278.9%	290.8%	250.8%	244.8%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$1,328	\$1,417	\$1,382	\$1,399	\$2,436
Pension tread water contribution (\$000)	\$1,319	\$1,906	\$1,960	\$1,492	\$1,565
OPEB contributions (\$000)	\$0	\$0	\$233	\$233	\$178
Implied cost of other long-term liabilities (\$000)	\$0	\$0	\$0	\$0	\$109
Fixed-costs ratio (%)	10.3%	12.4%	12.6%	11.0%	11.1%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#). The Economic Growth metric cited above compares the five-year CAGR of real GDP for New York-Newark-Jersey City, NY-NJ-PA Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Hawthorne (Borough of) NJ's financial statements and Moody's Investors Service, US Bureau of Economic Analysis

## Profile

Hawthorne is a suburban community in [Passaic County](#) (Aa1 stable) roughly 20 miles west northwest of [New York City](#) (Aa2 stable). It provides standard municipal services, including water utility services, to approximately 19,200 residents.

## Detailed credit considerations

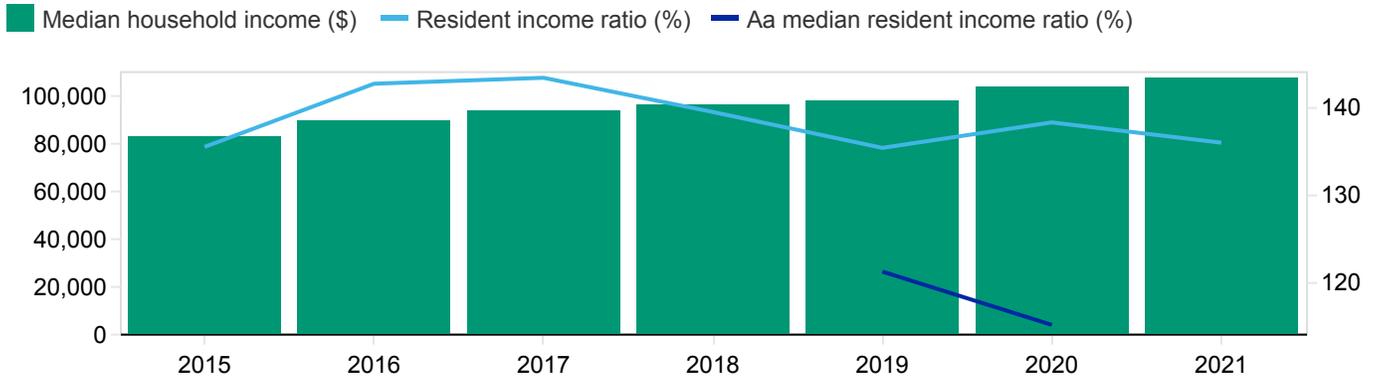
Hawthorne's economy will remain stable in the near to median term; although largely built out, there is a modest amount of ongoing redevelopment which has led to steady increases in taxable values. Notable ongoing projects range from new apartment complexes and a supermarket to a plan to redevelop an old industrial lot. The borough has rezoned certain areas to allow for increased density. Resident wealth and income are above-average. The borough's finances are very strong and stable, supported by healthy property tax collection rates. The water utility, which contributes 13.6% of total revenues, is also healthy. Leverage is average and the largest component is the state-administered pension liabilities. The borough makes active efforts to manage its OPEB liabilities.

Management expects the borough's finances to remain roughly stable. They maintain a formal policy to keep reported fund balance at a minimum of 10% of expenses, which would still correspond to a healthy Moody's-adjusted available fund balance<sup>1</sup>. Going forward, management intends to keep leverage roughly in line with current levels and will supplement debt issuances with an increase in pay as you go capital spending.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Economy

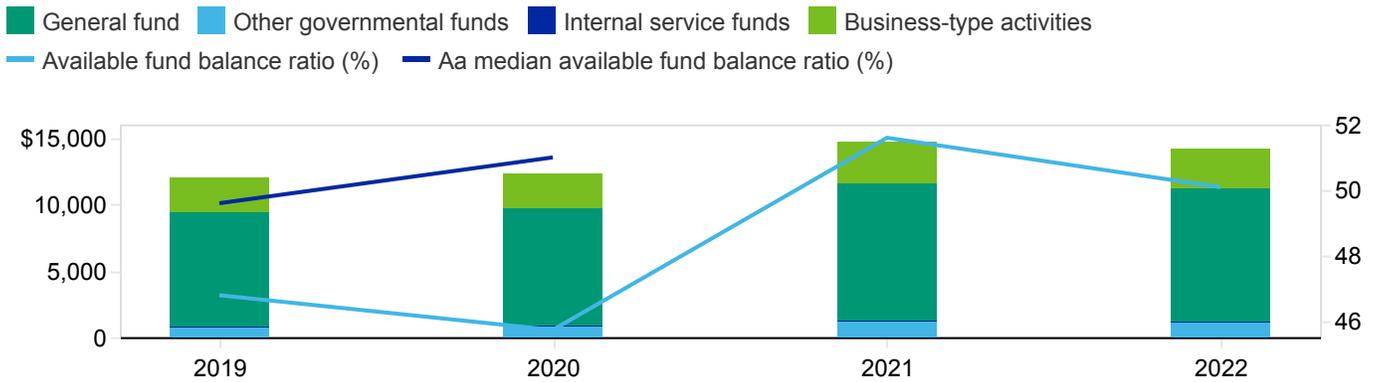
Exhibit 2  
Resident Income



Sources: Moody's Investors Service & US Census Bureau

Financial operations

Exhibit 3  
Fund Balance



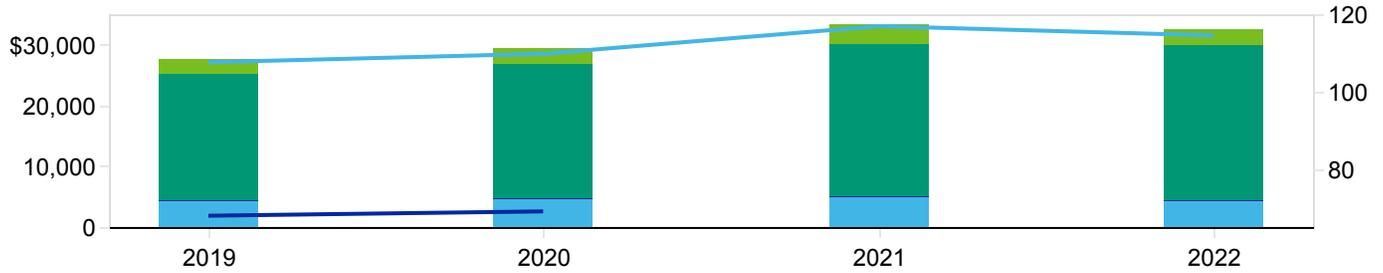
Sources: Moody's Investors Service & Hawthorne audited financial statements

Liquidity

Exhibit 4

Cash

■ General fund 
 ■ Other governmental funds 
 ■ Internal service funds 
 ■ Business-type activities 
 — Liquidity ratio (%) 
 — Aa median liquidity ratio (%)



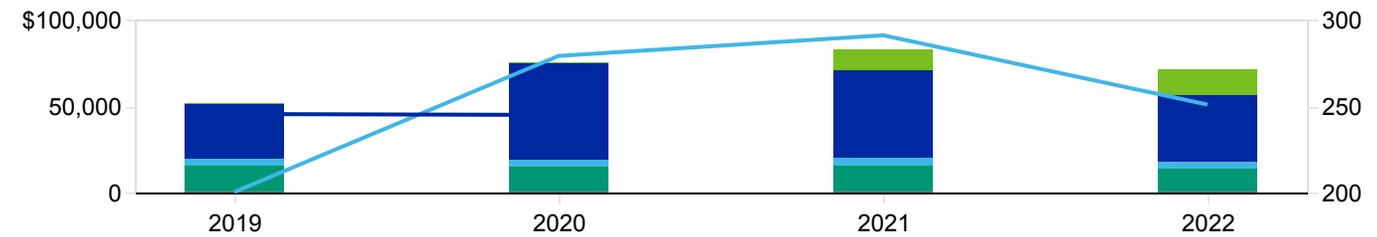
Sources: Moody's Investors Service & Hawthorne audited financial statements

Leverage

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt 
 ■ Business-Type Activity Debt 
 ■ Adjusted net pension liabilities 
 ■ Adjusted net other post-employment liabilities 
 ■ Other long-term liabilities 
 — Long-term liabilities ratio (%) 
 — Aa median long-term liabilities ratio (%)



Sources: Moody's Investors Service & Hawthorne audited financial statements

ESG considerations

Environmental risk is [generally low for the local government sector](#) and factors modestly into the borough's credit profile. According to data from Moody's Climate on Demand, based on county-level data, the borough is at medium risk from heat stress, hurricanes, water stress, and wildfires. However, the borough would likely receive federal and state assistance in the event of an emergency.

Social

[Social considerations](#) such as wealth, income, and employment are major factors in the borough's credit quality and are discussed in the economy section.

Governance

Governance is a [key credit consideration](#) for all local government issuers. The borough has a track record of conservative budgeting and a formal policy to maintain a minimum of 10% expenses in reported fund balance. The borough has comfortably exceeded this level for years.

New Jersey municipalities have an Institutional Framework score of "Aa," or strong. Revenues are moderately predictable and mostly consist of property taxes; however, cities are required to make county and school district tax levies whole in the event of tax appeals. Revenue-raising ability is moderate as cities are constrained by a 2% cap on the property tax levy. Cities can raise the levy above the cap for debt service, pensions and certain qualified expenses. Expenditures, which primarily consist of personnel and public safety, are highly predictable. Cities have a moderate ability to adjust costs given the presence of collective bargaining and high fixed costs.

## Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 6

### Hawthorne (Borough of) NJ

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	135.8%	10.0%	Aaa
Full value per capita	156,985	10.0%	Aa
Economic growth metric	-0.6%	10.0%	Aa
<b>Financial Performance</b>			
Available fund balance ratio	50.1%	20.0%	Aaa
Liquidity ratio	114.5%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	250.8%	20.0%	A
Fixed-costs ratio	11.0%	10.0%	Aa
<b>Notching factors</b>			
Financial disclosures	-0.5		
Scorecard-Indicated Outcome			Aa2
<b>Assigned Rating</b>			<b>Aa2</b>

The complete list of outstanding ratings assigned to the Hawthorne (Borough of) NJ is available on their [issuer page](#). Details on the current ESG scores assigned to the Hawthorne (Borough of) NJ are available on their [ESGView page](#).

Sources: US Census Bureau, Hawthorne (Borough of) NJ's financial statements and Moody's Investors Service

## Appendix

Exhibit 7

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

## Endnotes

- 1 Moody's makes [certain adjustments](#) to New Jersey local governments' fund balances to include receivables and reserves that would be eligible to be included in fund balance under GAAP accounting but are excluded as a result of state statutory accounting regulations.

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