

### Summary:

## New Providence Borough, New Jersey; General Obligation

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### Credit Profile

US\$8.91 mil gen imp bnds due 05/15/2027

*Long Term Rating*

AAA/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to New Providence Borough, N.J.'s series 2012 general improvement bonds.

The rating reflects our assessment of the borough's:

- Mature, affluent, and primarily residential area with excellent access to the diverse New York-New Jersey metropolitan economies;
- Very strong income and wealth levels with no concentration among the leading taxpayers;
- Sound finances, characterized by strong current fund reserves and supported by strong financial policies and practices, according to our Financial Management Assessment (FMA) methodology; and
- Low debt on a market value basis, coupled with rapid amortization.

The borough's full-faith-and-general-obligation (GO) pledge secures the bonds. Officials intend to use bond proceeds to finance previously issued bond anticipation notes (BANs) permanently and finance various capital improvements.

The roughly 3.6-square-mile New Providence Borough, with a population estimate of 12,000, is in northwestern Union County ('AA+' GO debt rating). The borough is just 15 miles from Newark and 28 miles from New York City. New Providence is mature and primarily residential; residential property accounts for 81% of assessed value (AV). The Garden State Parkway and New Jersey Turnpike are less than a 15-minute drive from the borough. Due to its location and easy roadway access, residents find employment throughout the diverse New York-New Jersey economies. Historically, county unemployment has been just slightly above state and national rates; as of November 2011, it was 9% compared with the state's and nation's 8.7%. Median household and per capita effective buying incomes are, in our view, a very strong 196% and 195%, respectively, of national averages.

AV has remained relatively flat over the past five years. AV has declined slightly by 0.2% in fiscal 2012 due to successful tax appeals. AV, however, was still, in our view, a sizable \$1.3 billion. Market value is currently \$2.5 billion, or \$210,450 per capita, which we consider extremely strong. The leading taxpayers, primarily apartment buildings, account for a diverse 9.6% of AV. The borough reports it has reserved roughly \$600,000 for potential refunds from tax appeals, which management believes is roughly double its current exposure.

The borough's operations remain, in our view, strong. The adopted fiscal 2012 budget includes a \$2 million surplus appropriation that is in line with previous years, and management expects to regenerate the full appropriation. The

budget is also \$253,000 under the property tax cap. According to officials, the property tax increase is a slight 2.18%. Management indicates year-to-date results for fiscal 2012 are better than expected. Fiscal 2011 results ended with a slight \$329,000 drawdown due primarily to capital expenditures, as well as the maintenance of current fund reserves of \$2.5 million, or, what we view as, a strong 15.6% of operating expenses. At fiscal year-end 2010, the unreserved current fund balance was \$2.8 million, or 17.6% of expenditures, which we consider very strong. Property taxes are the borough's primary revenue source, accounting for 75.3% of current fund revenue.

Standard & Poor's considers the borough's financial management policies "strong" under its FMA methodology, indicating practices are strong, well embedded, and likely sustainable. Highlights of the borough's management techniques include its:

- Formal reserve policy that targets a minimum reserve balance of \$750,000;
- Various formal debt affordability policies, including at least 60% of principal repaid over 10 years and annual increases in total debt service not exceeding 5%, year over year;
- Five-year capital improvement plan (CIP) with identified projects and funding sources; and
- Formal long-term pro forma financial projections.

Overall debt is, in our opinion, a moderate \$4,003 per capita, or a low 1.9% of market value, due primarily to overlapping debt from the county and school district. We consider principal amortization rapid with officials planning to retire 75% of debt over 10 years and 100% by 2027. The borough plans to issue BANs of up to \$2.5 million annually over the next few fiscal years for routine capital needs. We do not expect this to change the borough's debt profile materially due to its rapid debt amortization.

The borough contributes to state-administered pension and retiree health benefit plans. Total pension contributions were approximately \$770,061, or approximately 4.8% of expenditures, in fiscal 2010. The borough provides other postemployment benefits up to a maximum of \$15,000 annually for eligible plan members; in fiscal 2010, the borough contributed \$17,564 to the plan for two individuals. As of Dec. 31, 2009, the unfunded actuarial liability was \$1 million.

## Outlook

The stable outlook reflects Standard & Poor's opinion of the borough's very high wealth and income and location and participation in New York's and New Jersey's diverse regional economies. We view the borough's operations and financial position as strong; coupled with, what we view as, low debt and a very manageable CIP, we believe New Providence will likely continue to exhibit rating stability. The outlook also reflects our view that the borough will likely continue to maintain fund balance reserves, which are currently more than 15% of annual expenses, consistent with the rating category. We consider it unlikely that the rating we will change during the outlook's two-year period based on the economy's strength and the borough's consistent financial performance.

## Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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