

New Providence, New Jersey

General Obligation Bonds New Issue Report

Ratings

New Issue

General Improvement Bonds,
Series 2015 AAA

Outstanding Debt

General Improvement Bonds AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$9,980,000 General Improvement Bonds, Series 2015, scheduled to sell competitively on June 17.

Security: New Providence's (the borough) full faith and credit and unlimited taxing authority.

Purpose: To currently refund the borough's outstanding bond anticipation notes of \$3.25 million and to finance various capital improvement projects.

Final Maturity: March 1, 2029.

Key Rating Drivers

Strong Financial Profile: The borough's strong financial management and prudent budgeting practices have led to the maintenance of ample reserve levels, providing the borough with a high degree of financial flexibility.

Strong Socioeconomic Indicators: Wealth levels are above average, representative of the highly educated professionals residing in the borough and its location within commuting distance of major employment centers.

Manageable Debt Levels: Overall debt levels are moderate and are not expected to rise. The borough's pension and other post-employment benefits (OPEB) liabilities are manageable.

Stable and Diverse Tax Base: The borough's primarily residential tax base has experienced modest declines over the past five years due to tax appeals and some recessionary value declines. New development has continued, offsetting some of the declines, and growth in taxable values has resumed in 2015. The top 10 taxpayers are diverse and represent 8% of the tax base.

Rating Sensitivities

Continued Strong Financial Management: The rating is sensitive to shifts in fundamental credit characteristics, including the borough's strong financial management practices and healthy reserves. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are highly unlikely over the coming review cycle.

Related Research

[Fitch Rates New Providence NJ's GO Bonds 'AAA'; Outlook Stable \(May 2015\)](#)

Analysts

Kevin Dolan
+1 212 908-0538
kevin.dolan@fitchratings.com

Michael Rinaldi
+1 212 908-0833
michael.rinaldi@fitchratings.com

Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/21/15
AAA	Affirmed	Stable	4/17/14
AAA	Assigned	Stable	5/7/12

Credit Profile

New Providence is located in Union County, roughly 15 miles from downtown Newark and 28 miles west of New York City. The borough has a population of 12,332, up 3.6% since 2000.

Proximity to Employment Centers, Above-Average Wealth Levels

Borough residents are primarily working professionals who commute to nearby employment areas including New York City, Newark and Morristown. Wealth levels are very high, as reflected in median household income levels equal to 182% and 246% of the state and national averages, respectively. The borough features a low poverty rate of 5.2% and a workforce exhibiting a high level of educational attainment (28% of residents hold an advanced degree compared with the national rate of 11%).

General Fund Financial Summary

(\$000, Years Ended Dec. 31)

	2010	2011	2012	2013	2014 ^a
Property Tax	11,536	11,832	11,945	12,379	12,756
Miscellaneous Revenues Anticipated	4,297	3,324	3,637	3,706	3,529
Nonbudget Revenues	180	204	512	267	278
Unexpended Appropriation Reserves	370	335	376	412	1,036
Other	16	3	393	35	17
Total Municipal Revenues	16,399	15,698	16,863	16,799	17,616
County, School, Open Space and Special District Tax Passed Through	41,445	42,958	44,015	45,129	46,356
Total Revenues	57,844	58,656	60,878	61,928	63,972
Salaries and Wages	5,420	5,547	5,621	5,727	5,941
Other Expenses	7,149	6,717	6,643	6,895	7,065
Municipal Deferred Charges and Statutory Expenditures	1,222	1,446	1,358	1,648	1,645
Capital Improvement Fund	0	240	520	350	400
Municipal Debt Service	2,138	1,872	1,986	1,765	1,679
Other Expenses	4	206	373	34	151
Total Municipal Expenses	15,933	16,028	16,501	16,419	16,881
County, School, Open Space and Special District Tax Passed Through	41,445	42,958	44,015	45,129	46,356
Total Expenditures	57,378	58,985	60,516	61,548	63,238
Operating Surplus/(Deficit)	466	(329)	362	380	652
Total Fund Balance	2,791	2,462	2,824	3,204	3,856
% Total Municipal Expenditures, Transfers Out and Other Uses	17.5	15.4	17.1	19.5	22.8
Unrestricted Fund Balance	2,791	2,462	2,824	3,204	3,856
% Total Municipal Expenditures, Transfers Out and Other Uses	17.5	15.4	17.1	19.5	22.8

^aUnaudited. Note: Numbers may not add due to rounding.

Stable and Diverse Tax Base

The borough has a 2014 market value of \$2.47 billion, which translates to a high \$200,000 market value per capita, further evidence of high wealth levels. The borough's assessed valuation (AV) has remained relatively stable over the past five years, although commercial property tax appeals occurred in 2012, primarily as a result of the sale of a 26-acre property for redevelopment. Construction of a 420-unit continuing care retirement community, Lantern Hill, with an estimated cost of \$75 million, has commenced on this site. The first phase of the new

Related Criteria

[Tax-Supported Rating Criteria \(August 2012\)](#)
[U.S. State Government Tax-Supported Rating Criteria \(August 2012\)](#)

facility reportedly sold out quickly and is expected to open in late 2015. This project, along with other new commercial construction and two new town home developments, are projected to boost 2016 taxable values.

Taxpayer concentration is low, as the top 10 taxpayers comprise 7.8% of AV and consist of a mix of residential, office, retail and commercial companies. The largest taxpayer at 1.6% is the B.O.C. Group, Inc., a division of Linde Group, a leading worldwide gases and engineering company.

Strong Financial Condition

The borough’s conservative budget practices and strong fiscal policies have contributed to historically solid current fund reserves; 2013 closed with a \$380,000 surplus, increasing current fund reserves to \$3.2 million, or a healthy 20% of spending. Unaudited results for 2014 showed another year of surplus results, with reserves projected to increase to \$3.9 million, or 23% of spending. Reserves remain well above the borough’s adopted policy level of \$750,000, which translates to a fairly narrow 4%–5% of current spending.

The borough also prudently maintains special reserves pursuant to its financial policies that totaled \$1.2 million at year-end 2014. These funds were established per policy for typically volatile expenditure items such as snow removal and potential tax appeals and include a capital surplus fund.

These reserves, combined with the borough’s projected 2014 current fund, total just over \$5 million, or 30% of current fund operating expenditures, providing the borough with ample financial flexibility.

2015 Budget Includes Modest Tax Increase

The 2015 budget was adopted April 13, 2015 and includes a 1.88% increase in the municipal portion of the tax levy and reflects the anticipated increase in AV. Increases in pension, health and salary costs are the primary expenditure drivers. Management also included an additional \$225,000 appropriation for potential tax appeals. New Jersey municipalities are subject to a 2% tax levy cap, although debt service, increases in pension and healthcare costs and tax revenues from new development are exempt. The borough has been successful in managing within this tax cap.

Moderate Debt Levels with Rapid Amortization

Overall debt levels are moderate at \$4,272 per capita and 2.1% of market value, due primarily to overlapping county and school debt.

Debt amortization is very rapid, with 77% of principal retiring in 10 years. The borough’s capital needs are minimal and include general capital and infrastructure projects of close to \$2 million (to be funded from a mix of budget appropriations and short-term borrowing). Debt policies provide for rapid amortization and maintenance of level debt service costs, which Fitch views favorably.

Debt Statistics

(\$000)	
This Issue	9,980
Outstanding Direct Debt	10,520
Net Direct Debt	20,500
Overlapping Debt	32,181
Overall Debt	52,681
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	1,662
As % of Market Value ^b	0.8
Overall Debt Per Capita (\$) ^a	4,272
As % of Market Value ^b	2.1

^aPopulation: 12,332 (2013). ^bMarket value: \$2,465,220,000 (2014).
Note: Numbers may not add due to rounding.

Manageable Pension and OPEB Liabilities

The majority of the borough's employees participate in either the state-operated police and firemen's retirement system or the public employees' retirement system; the programs are funded at an estimated 69% and 67%, respectively, using Fitch's conservative 7% investment rate of return assumption. The borough's contributions, which are actuarially determined, totaled \$842,000, or roughly 5% of 2014 current fund spending. The 2015 contributions are expected to increase modestly.

The borough's OPEB obligations are not material due to stringent eligibility requirements. The borough paid \$36,000 in annual costs in 2014.

Carrying costs (including debt service, pension and OPEB costs) were moderate at 15% of current fund spending in 2014. Carrying costs are expected to increase slightly due to the new debt amortizing beginning in 2016 and climbing pension costs.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK [HTTPS://FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://fitchratings.com/understandingcreditratings) IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S PUBLIC WEB SITE AT WWW.FITCHRATINGS.COM. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2015 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings, Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings can be affected by future events or conditions that were not anticipated at the time a rating was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion is based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at anytime for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.