

# MOODY'S

## INVESTORS SERVICE

### New Issue: Moody's upgrades New Providence, NJ's GO to Aa1

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Global Credit Research - 29 May 2015

**Affects \$20.5M in debt, post-sale including \$9.98M Ser. 2015 GO bonds**

NEW PROVIDENCE (BOROUGH OF) NJ  
Cities (including Towns, Villages and Townships)  
NJ

#### Moody's Rating

| ISSUE                                  | RATING             |
|----------------------------------------|--------------------|
| General Improvement Bonds, Series 2015 | Aa1                |
| <b>Sale Amount</b>                     | \$9,980,000        |
| <b>Expected Sale Date</b>              | 06/17/15           |
| <b>Rating Description</b>              | General Obligation |

**Moody's Outlook** NOO

NEW YORK, May 29, 2015 --Moody's Investors Service has assigned a Aa1 rating to the Borough of New Providence, NJ's \$9.98 million 2015 General Improvement bonds. Concurrently, Moody's upgrades to Aa1 from Aa2 the rating on the borough's outstanding long-term parity debt. Post-sale, the borough will have \$20.5 million in long-term GO debt.

#### SUMMARY RATING RATIONALE

The upgrade to Aa1 rating reflects the borough's strong financial operations with healthy reserve levels and strong management. The rating also takes into account the borough's sizeable tax base, strong socioeconomic wealth levels, and low debt burden.

#### OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

#### WHAT COULD MAKE THE RATING GO UP

-Strengthening of the borough's tax base beyond current growth expectations

#### WHAT COULD MAKE THE RATING GO DOWN

-Material deterioration of the tax base and socioeconomic indices

-Significant decrease in reserves

#### STRENGTHS

-Large tax base

-Strong wealth levels

-Strong management practices

#### CHALLENGES

-Recent history of high tax appeals

## RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

## DETAILED RATING RATIONALE

### ECONOMY AND TAX BASE: LARGE TAX BASE WITH HIGH WEALTH LEVELS

The borough's tax base will remain stable given its access to employment opportunities in the New York City (Aa2 stable) area, ongoing redevelopment, and above-average demographic indicators. New Providence, located approximately 27 miles west of New York City, is a primarily residential community with a strong commercial base. Socioeconomic indicators in the \$2.4 billion tax base are well above-average, with median family income at 235% of the national median. The five-year compound annual decline for New Providence's equalized value is 1%, however, the borough actually grew 0.2% in 2015. Management reports considerable ongoing redevelopment which is expected to lead to increases in assessed value of at least 4% over 5 years. This redevelopment includes both the construction of high-end residential and high-end commercial properties. Of particular note is the Lantern Hill project, an age restricted luxury housing complex, all of whose residents will have assets of at least \$1 million. The complex, already under construction, is expected to add approximately \$50 million to assessed value equal to roughly \$93 million in full value.

### FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCES WITH HEALTHY RESERVES

The borough's financial position should remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased significantly since 2008 to \$3.2 million, or 19.1% of revenues, from \$2.4 million, or 15.6% of revenues, due to management efforts. 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. The borough's Moody's-adjusted Current Fund Balance increased to \$5.9 million (35.3%) in 2013. Preliminary 2014 results indicate that unadjusted Current Fund balance increased to approximately \$3.9 million while adjusted fund balance increased to \$6.5 million. The balance sheet gains were caused primarily by conservative budgeting and aggressive use of shared service agreements to contain costs.

Moody's notes that while the borough's flexibility is restrained on the revenue side by the 2% statutory tax levy cap, the borough maintains considerable budgetary flexibility because of its low level of fixed costs. Including debt service, pensions, and other post employment benefits, total fixed costs come to a modest \$2.7 million, or 16.5% of expenditures.

#### Liquidity

Liquidity is likely to remain strong in the medium term. Net cash increased to \$6.5 million, or 38.6% of revenues, in 2013.

### DEBT AND PENSIONS: MODEST DEBT BURDEN; AVERAGE PENSION OBLIGATIONS

New Providence's debt burden will remain modest for the medium term. Including this issuance, in 2015, the borough's net direct debt burden was 0.9% of equalized value. Principal amortization is slightly below average at 67.9% over the next 10 years. Management has limited plans to issue additional debt.

#### Debt Structure

All of New Providence's debt is fixed rate.

#### Debt-Related Derivatives

The borough is not party to any interest rate swaps or other derivatives.

#### Pensions and OPEB

New Providence has an average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plans administered by the state. Moody's adjusted net pension liability (ANPL) for the borough, under our methodology for adjusting reported pension data, is \$26 million, or an average 1.19 times Current Fund revenues. The borough's 2013 contribution to the retirement system was \$574,000 for the Police and Firemen's Retirement System (PFRS) and \$338,000 for the Public Employees' Retirement System (PERS). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not

intended to replace the borough's reported liability information, but to improve comparability with other rated entities.

## MANAGEMENT AND GOVERNANCE

The borough's management has been aggressive about controlling costs and pushing economic expansion. Management maintains detailed budget and ratable forecasts which are used to inform financial policy.

New Jersey cities have an institutional framework score of "Aa", or strong. Expenditure costs are highly predictable given the arbitration award cap. While the property tax levy limitation somewhat constrains revenue raising ability, the risk of property tax appeals has declined as cities have become better at preventing appeals.

## KEY STATISTICS

- Equalized Value, 2015: \$2.4 billion
- Equalized Value Per Capita, 2015: \$195,552
- Median Family Income as % of US Median (2012): 235%
- Fund Balance as % of Revenues, Moody's-adjusted for 2013: 35%
- 5-Year Dollar Change in adjusted Fund Balance as % of Revenues: 14.7%
- Cash Balance as % of Revenues, 2013: 38.6%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 12.0%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.01x
- Net Direct Debt as % of Equalized Value: 0.85%
- Net Direct Debt / Operating Revenues: 1.2x
- 3-Year Average ANPL as % of Equalized Value: 0.83%
- 3-Year Average ANPL / Operating Revenues: 1.2x

## OBLIGOR PROFILE

New Providence is a borough with a population of 12,000 located in northern New Jersey, within commuting distance of New York City.

## LEGAL SECURITY

Debt service on the rated debt is secured by the borough's general obligation unlimited ad valorem tax pledge.

## USE OF PROCEEDS

The \$10.0 million of total proceeds, will be used to permanently finance various capital projects.

## PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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