

# RatingsDirect®

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## Summary:

# New Providence Borough, New Jersey; General Obligation

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## Summary:

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### Credit Profile

US\$9.98 mil gen imp bnds ser 2015 due 03/01/2029

*Long Term Rating*

AAA/Stable

New

New Providence Boro gen imp bnds

*Long Term Rating*

AAA/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to New Providence, N.J.'s general improvement general obligation (GO) bonds series 2015. At the same time, we affirmed the 'AAA' GO rating on the borough's outstanding debt. The outlook is stable.

In our opinion, the rating reflects the borough's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2013 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash of 47.8% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 10.7% and net direct debt that is 126.9% of total governmental fund revenue and low overall net debt at less than 3% of market value and rapid amortization with 75.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

The bonds are secured by the borough's full-faith-and-GO credit pledge. We understand the borough will use proceeds from this issue to refund \$3.25 million of outstanding bond anticipation notes with the remainder (\$6.75 million) used to finance various capital projects.

### Very strong economy

We consider New Providence's economy very strong. New Providence, with an estimated population of 12,313, is located in Union County in the New York-Newark-Jersey City, N.Y.-N.J.-Pa. MSA, which we consider to be broad and diverse. The borough has a projected per capita effective buying income of 248% of the U.S. level, which we view as extremely high and a positive credit factor and per capita market value of \$200,213. Overall, the borough's market value was stable over the past year at \$2.5 billion in 2015. The county unemployment rate was 6.8% in 2014.

The roughly 3.6-square-mile New Providence Borough is located just 15 miles from Newark and 28 miles from New

York City. New Providence is mature and primarily residential; residential property accounts for 83% of assessed value (AV). The Garden State Parkway and New Jersey Turnpike are less than a 15-minute drive from the borough. Because of 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 averages.

AV has remained relatively flat over the past five years, declining just 0.6% over the past five years to a current \$1.29 billion due to successful tax appeals. Although tax appeals continue, primarily on the commercial side, management has taken proactive steps to address them, including reserving against them and retaining a special property tax counsel. The borough has indicated that it does not plan on performing a property reassessment or revaluation in the foreseeable future. The leading taxpayers, primarily large corporations and apartment buildings, account for a 7.8% of total AV. The borough reports it has reserved roughly \$987,000 for potential refunds from tax appeals, which management believes to be sufficient to cover its current exposure. Despite ongoing appeals and the mature nature of the borough, the tax base is projected to see continued modest growth given ongoing economic re-development with several small to medium economic development projects as well as the larger Lantern Hill development. Lantern Hill began construction in early 2014 and encompasses 26.5 acres on a prior commercial site. It will be a continuing care retirement community with a total of 420 independent living units and 85 assisted living units upon build out. Total construction costs are estimated at \$75 million. Construction of the first phase is expected by the end of 2015.

### **Very strong management**

We view the borough's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Highlights include:

- 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.

In addition, budget preparation includes a mix of zero-based budgeting and historical trend analysis for both revenues and expenditures. Budget to actuals are monitored monthly with reports provided to the council monthly. The borough, furthermore, maintains a cash management plan, which follows state guidelines. Investments are monitored monthly with reports provided to the council monthly.

### **Strong budgetary performance**

New Providence's budgetary performance is strong in our opinion, with operating surpluses of 2.3% in the general fund and 2.3% across all governmental funds in fiscal 2013.

Over the past five fiscal years (2009-2013), the borough has closed with three operating surplus; and in the years of drawdowns, we understand they were due primarily to capital expenditures and the maintenance of current fund reserve levels. Despite the size of the surpluses, they were achieved during a nationwide recessionary period, and all-the-while addressing an increased number of commercial tax appeals; testament to the borough's conservative

fiscal policies and management's commitment to maintain a solid financial position. In addition, the borough annually prepares a five-year ratable forecast; an important tool used for annual budget preparation and forecasting. Management attributes the surpluses and overall sound financial operations to ongoing cost-cutting measures, which include regionalization of certain services and cost-sharing agreements with neighboring municipalities. Property taxes are the borough's leading revenue source; accounting for roughly 74% of total current fund revenues. The borough has remained just slightly below the tax cap levy and has had cap bank in each of the past four fiscal years. Tax collections are strong; with collections at least 99% over the past five years. Although still unaudited, the Annual Financial Statement, projects another operating surplus of \$652,000, which is projected to increase available reserves to \$3.85 million or 22.8% of expenditures. The fiscal 2015 budget remains under the 2% levy cap and appropriates \$2.93 million of reserves. Despite the modest increase in surplus utilized, the borough has historically been able to regenerate the full appropriation. Management has indicated that fiscal 2015 revenues and expenditures are tracking on target with budget.

### **Very strong budgetary flexibility**

New Providence's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2013 of 20% of operating expenditures, or \$3.2 million.

The borough's reserve levels have been above 15% of expenditures over the past three audited fiscal years (2011-2013) and continue to rise. Recent surpluses can be attributed to ongoing cost-cutting measures coupled with a well-seasoned management team that adheres to conservative, and in certain cases, formal fiscal policies. Although unaudited, the fiscal 2014 Annual Financial Statement is projecting to close with another operating surplus of \$652,000, increasing reserves to an estimated \$3.85 million or 22.8% of expenditures. The fiscal 2015 budget is within the 2% levy cap limit and appropriates \$2.93 million of reserves; a level slightly higher than in prior years.

### **Very strong liquidity**

In our opinion, New Providence's liquidity is very strong, with total government available cash of 47.8% of total governmental fund expenditures and 4.4x governmental debt service in 2013. In our view, the borough has strong access to external liquidity if necessary.

The borough has a modest amount of reserves outside the current fund, which it can utilize, if necessary, providing additional financial flexibility. Furthermore, Management has confirmed it has no contingent liquidity risks from financial instruments with payment provisions that change upon the occurrence of certain events.

### **Strong debt and contingent liability profile**

In our view, New Providence's debt and contingent liability profile is strong. Total governmental fund debt service is 10.7% of total governmental fund expenditures, and net direct debt is 126.9% of total governmental fund revenue. Overall net debt is low at 2.1% of market value and approximately 75.5% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The borough has indicated that it has no plans to issue additional debt over the next 12-24 months.

New Providence's combined pension and other postemployment benefits (OPEB) contributions totaled 5.7% of total governmental fund expenditures in 2013. The borough made its full annual required pension contribution in 2013, as

per state requirements.

The borough contributes to state-administered pension and retiree health benefit plans. Total pension contributions were approximately \$939,000, or approximately 5.7% of expenditures, in fiscal 2013. The borough provides other postemployment benefits up to a maximum of \$15,000 annually for eligible plan members; in fiscal 2013, the borough contributed \$26,000 to the plan for two individuals. As of Dec. 31, 2013, the unfunded actuarial liability was \$1.23 million.

### **Strong institutional framework**

The institutional framework score for New Jersey municipalities is strong.

## **Outlook**

The stable outlook reflects the very strong local economy which participates in the broad and diverse New York–New Jersey employment base. The borough's strong budgetary performance, very strong budgetary flexibility, and liquidity levels, coupled with very strong management, lends further stability to the rating. As such, we do not expect to change the rating over our two-year outlook horizon. However, although unlikely, if the borough were to face fiscal pressures and reserves and liquidity levels were to significantly deteriorate, we might lower the rating.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: New Jersey Local Governments

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