New Providence, New Jersey

Full Rating Report

Ratings

Long-Term Issuer Default Rating	AAA

Outstanding Debt

General Obligation Bonds	AAA

Rating Outlook

Stable

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

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

Analytical Conclusion

The 'AAA' Issuer Default Rating (IDR) and GO bond rating reflect Fitch Ratings' expectation for the borough of New Providence (the borough) to maintain healthy financial flexibility throughout economic cycles, consistent with a history of strong operating performance and sound reserves. The borough's strong financial profile reflects a wealthy property tax base, moderate expenditure growth and low long-term liability burden.

Key Rating Drivers

Economic Resource Base: New Providence is located in northwestern Union County, roughly 15 miles from downtown Newark and 28 miles west of New York City. The borough had an estimated population of 12,469 in 2015, up 2.4% since 2010.

Revenue Framework: 'aa' factor assessment. The borough derives the bulk of its revenues from property taxes. Fitch expects natural revenue growth to be slow but in line with inflation as tax base growth continues at a moderate pace based on projected changes from ongoing development. The property tax levy is legally restricted to 2% growth, with some exceptions, but the borough retains significant banked capacity and strong revenue-raising flexibility.

Expenditure Framework: 'aa' factor assessment. Fitch expects natural expenditure growth to slightly exceed or match natural revenue growth. Fixed cost spending for debt service, pension and OPEB contributions represents a moderate level of current fund spending, and Fitch expects such costs to remain at this level, contributing to the borough's solid expenditure flexibility.

Long-Term Liability Burden: 'aaa' factor assessment. New Providence's long-term liability burden of overall debt and pensions is low, at around 8% of residents' personal income. Fitch expects the borough's long-term liability burden to remain low based on future debt plans and a rapid rate of principal amortization.

Operating Performance: 'aaa' factor assessment. Fitch expects New Providence to manage through periods of economic decline while maintaining an adequate financial cushion for the current assessment on the basis of the borough's superior level of inherent budgetary flexibility in the form of control over revenues and spending, and sound financial management throughout the economic cycle.

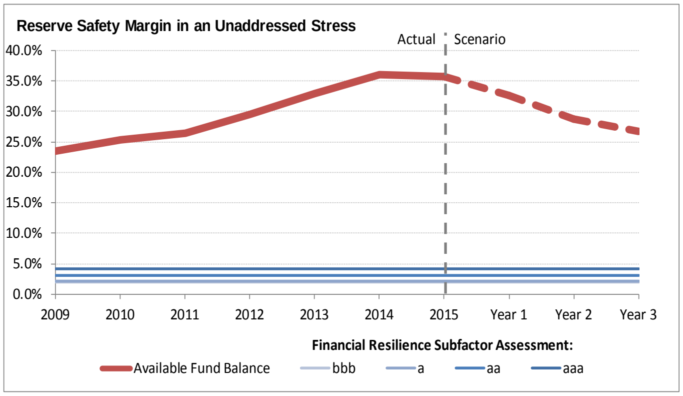
Rating Sensitivities

Long-Term Liabilities: An unexpected increase in overall debt or unfunded pension liabilities could pressure the IDR and GO bond rating.

New Providence (NJ)

Scenario Analysis

v. 2.0 2017/03/24



Analyst Interpretation of Scenario Results:

Fitch expects New Providence will continue to maintain sound reserve levels for the current rating level throughout economic cycles given its historically stable revenue performance, superior level of inherent budget flexibility in the form of revenue and spending control, and demonstrated commitment to rebuilding reserves following a downturn. The borough has experienced surplus operations in 5 of the past 6 years and has historically maintained sound reserve levels well above the level Fitch deems adequate to maintain a 'aaa' financial resilience assessment.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(2.1%)	0.9%	3.9%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2009	2010	2011	2012	2013	2014	2015	Year 1	Year 2	Year 3
Total Revenues	15,522	16,399	15,698	16,862	16,799	17,535	18,174	17,798	17,960	18,658
% Change in Revenues	-	5.7%	(4.3%)	7.4%	(0.4%)	4.4%	3.6%	(2.1%)	0.9%	3.9%
Total Expenditures	15,639	15,933	15,824	16,283	16,419	16,884	17,838	18,195	18,559	18,930
% Change in Expenditures	-	1.9%	(0.7%)	2.9%	0.8%	2.8%	5.7%	2.0%	2.0%	2.0%
Transfers In and Other Sources	-	-	-	-	-	-	-	-	-	-
Transfers Out and Other Uses	-	-	203	10	-	-	-	-	-	-
Net Transfers	-	-	(203)	(10)	-	-	-	-	-	-
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	(117)	466	(329)	569	380	651	336	(397)	(599)	(272)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	(0.7%)	2.9%	(2.1%)	3.5%	2.3%	3.9%	1.9%	(2.2%)	(3.2%)	(1.4%)
Unrestricted/Unreserved Fund Balance (General Fund)	2,324	2,791	2,462	2,824	3,204	3,856	4,192	3,795	3,196	2,924
Other Available Funds (Analyst Input)	1,343	1,250	1,761	1,982	2,200	2,226	2,180	2,136	2,136	2,136
Combined Available Funds Balance (GF + Analyst Input)	3,667	4,041	4,223	4,806	5,404	6,082	6,372	5,931	5,332	5,060
Combined Available Fund Bal. (% of Expend. and Transfers Out)	23.4%	25.4%	26.3%	29.5%	32.9%	36.0%	35.7%	32.6%	28.7%	26.7%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	33.1%	16.6%	10.4%	6.2%	4.1%
Reserve Safety Margin (aa)	24.8%	12.4%	8.3%	5.2%	3.1%
Reserve Safety Margin (a)	16.6%	8.3%	5.2%	3.1%	2.1%
Reserve Safety Margin (bbb)	6.2%	4.1%	3.1%	2.1%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	4/14/17
AAA	Assigned	Stable	5/7/12
—	Withdrawn	—	12/2/09
AA+	Assigned	Stable	7/14/06

Related Research

Fitch Affirms New Providence N.J.'s GO Bonds at 'AAA'; Outlook Stable (April 2017)

Related Criteria

U.S. Tax-Supported Rating Criteria (April 2016)

Credit Profile

Borough residents are primarily working professionals who commute to nearby employment centers, including New York City, Newark and Morristown. Wealth levels are very high, as reflected in median household income levels that exceed state and national averages and a high $200,000 market value per capita.

After a moderate decline during the Great Recession, borough tax base values experienced gains of 2% and 3% respectively in 2016 and 2017 due to new residential housing and completion of construction of the initial phases of a 420-unit continuing care retirement community, Lantern Hill. The completion of the final phase of Lantern Hill, along with other residential and commercial projects, is projected to add to additional tax base growth through 2019.

Revenue Framework

The borough derives the bulk of its revenue from property taxes, which equal roughly 70% of the operating budget. Additional revenues consist of state aid and grants and various fees and charges.

Fitch expects the natural pace of revenue growth to be slow but in line with inflation as new development continues to expand the tax base. State equalized values have begun to see growth after moderate declines during the Great Recession.

New Providence's independent revenue-raising ability is viewed as high relative to potential revenue volatility in a moderate economic downturn. New Jersey municipalities are subject to a 2% cap on growth in the municipal tax levy over the prior year. State law allows municipalities to bank the tax levy cap for a period of three budget years. The total prior year amount available for the 2018 budget, if necessary, is roughly $0.86 million (4.7% of general operating revenues). The cap law excludes increases for capital expenditures and debt service, pension contributions above 2% and allowable increases in healthcare costs in excess of 2%, which tend to be drivers of spending growth. Additional exclusions apply to the value of new construction, other additions to the tax base and extraordinary costs related to a declared emergency.

Expenditure Framework

Employee-related salaries, wages and health insurance costs drive the borough's general spending. Public safety accounts for roughly 23% of the 2017 budget, followed by the public works department (17%).

Fitch expects the pace of spending growth to generally align with revenue growth over time and spending to continue to be managed within the revenue cap.

Fitch views New Providence's overall expenditure flexibility as solid. Carrying charges associated with the payment of debt service, actuarially determined pension contributions and OPEB contributions were approximately 14% of 2015 municipal spending (adjusted for property tax pass-throughs). Fitch's fixed cost metric for N.J. local governments is based only on the current fund, as New Jersey statutory accounting procedures do not include a governmental fund analysis. Debt service is the largest component of the metric at $1.4 million, or 8% of spending. The borough repays its outstanding debt quickly (81% of principal in 10 years), and future expectations for borrowing are manageable.

For the majority of the borough's workforce, labor terms are collectively bargained. Management has the ability to impose cuts in staff if necessary. Current state law restricts increases in base salary awarded through arbitration for public safety employees to no more than 2%.

Long-Term Liability Burden

Fitch estimates the borough's long-term liability burden (overall debt plus the unfunded pension liability) at roughly 8% of estimated personal income, which the agency considers low. Overlapping debt from Union County and the school district represents approximately 54% of the total burden. Fitch expects that the long-term liability burden will not fluctuate materially due to manageable plans for additional direct debt, very rapid debt amortization and expected increases in personal income over time.

The borough's employees participate in either the state-administered Police and Firemens' Retirement System (PFRS) or Public Employees' Retirement System (PERS). The borough's unfunded liability associated with the two plans was $24.5 million as of June 30, 2015. This amount represents almost 2% of personal income. The unfunded liability has risen in recent years due to a combination of assumption changes, investment losses and contribution deferrals during the recession and is expected to see moderate growth, but Fitch does not expect the unfunded liability to pressure the borough's long-term liability assessment in the foreseeable future.

Fitch considers the borough's obligation with respect to its OPEB to be very manageable.

Operating Performance

Fitch expects New Providence will continue to maintain sound reserve levels for the current rating category throughout economic cycles given the borough’s historically stable revenue performance, superior level of inherent budget flexibility in the form of revenue and spending control, and demonstrated commitment to rebuilding reserves following a downturn. For details, see Scenario Analysis, page 2.

Management uses long-term financial forecasting to plan for changes in revenues and expenditures and help control growth in annual tax levy increases. Fiscal policies are in place governing debt issuance levels and maintenance of reserves, contributing to the borough's strong financial profile. During the Great Recession, management reduced staff, mainly through attrition, and controlled expenditures to help maintain sound reserve levels. Fitch expects management would take similar actions during a future downturn.

2015 current fund results showed a small current fund surplus increasing the fund balance to $4.2 million from $3.9 million in 2014. This level represented 24% of current fund spending (net of tax pass-throughs).

The borough uses a modified accrual basis of accounting in accordance with state requirements as opposed to GAAP accounting. When compared to those issuers who use GAAP accounting, the modified accrual basis usually results in lower fund balance levels due to the typically larger current fund expenditure base and the requirement to carry over unexpended appropriation reserves for an additional year. With the inclusion of appropriation reserves, encumbrance reserves and reserves for receivables, which is more in line with GAAP accounting, total unrestricted reserves at 2015 year-end ($6.4 million) were 36% of spending.

Unaudited 2016 operating results are positive, resulting in growth in reserves of approximately $0.5 million. The results reflect conservative revenue assumptions and receipt of certain miscellaneous revenues not anticipated. Current fund reserves are projected to increase to a 2016 year-end balance of $4.7 million (28% of 2016 municipal appropriations), up from 24% at the end of 2015.

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