

## CREDIT OPINION

8 May 2017

### Update

Rate this Research >>

#### Contacts

Douglas Goldmacher 212-553-1477  
 Analyst  
 douglas.goldmacher@moody's.com

Dan Seymour, CFA 212-553-4871  
 VP-Senior Analyst  
 dan.seymour@moody's.com

## New Providence, NJ

Update - Moody's Upgrades New Providence, NJ to Aaa;  
 Outlook Stable

### Summary Rating Rationale

Moody's Investors Service has upgraded New Providence, NJ's general obligation unlimited tax debt to Aaa from Aa1. Concurrently, we have assigned a stable outlook.

The Aaa 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 wealth and income levels, and low debt burden.

### Credit Strengths

- » Large tax base
- » Strong wealth levels
- » Strong management practices

### Credit Challenges

- » Limited room for expansion, partially offset by strong redevelopment

### Rating Outlook

The stable outlook reflects our expectation that the borough's tax base, finances, and wealth levels will all remain strong.

### Factors that Could Lead to an Upgrade

- » Not applicable

### Factors that Could Lead to a Downgrade

- » Structurally imbalanced operations, leading to draws on reserves and liquidity
- » Tax base declines and deterioration of the borough's demographic profile
- » Material increase in debt burden

## Key Indicators

Exhibit 1

New Providence (Borough of) NJ	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 2,525,815	\$ 2,509,406	\$ 2,487,567	\$ 2,406,709	\$ 2,481,555
Full Value Per Capita	\$ 209,160	\$ 205,841	\$ 203,482	\$ 195,445	\$ 200,854
Median Family Income (% of US Median)	237.4%	235.2%	240.7%	249.6%	235.8%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 15,695	\$ 16,674	\$ 16,799	\$ 17,534	\$ 18,084
Fund Balance as a % of Revenues	27.6%	32.5%	35.3%	37.4%	35.0%
Cash Balance as a % of Revenues	28.0%	32.7%	38.6%	37.9%	36.2%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 11,674	\$ 13,400	\$ 11,945	\$ 13,770	\$ 19,360
Net Direct Debt / Operating Revenues (x)	0.7x	0.8x	0.7x	0.8x	1.1x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.5%	0.6%	0.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.0x	1.2x	1.3x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.7%	0.8%	0.9%	1.1%

Note: Fund balance metrics use Moody's-adjusted numbers

Sources: Moody's Investors Service and New Providence audited financial statements

## Detailed Rating Considerations

### Economy and Tax Base: Substantial Tax Base with Very Strong Income 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 \$2.6 billion tax base are well above-average, with median family income at 235.8% of the national median. The five-year compound annual growth for New Providence's equalized value is 0.3%; however, the borough actually grew at a faster pace in 2015 and 2016.

Management reports considerable ongoing redevelopment, which will lead to more substantial increases in assessed value. 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.

### Financial Operations and Reserves: Strong Finances with Healthy Reserves

The borough's financial position will remain strong as management continues to budget conservatively. Current Fund balance increased in 2015 to \$4.2 million, or 23% of current fund revenues, from \$3.9 million, or 22% of revenues, in 2014. 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 dipped slightly to \$6.3 million (35%) in 2015 from \$6.6 million (37.4%) in 2014. Notably, the borough has managed to keep both revenues and expenditures flat. Overall, The borough has a positive financial trend, with adjusted fund balance having increased 52% since 2010.

Although audited 2016 numbers are not yet available, unaudited numbers show unadjusted fund balance increasing to \$4.7 million, while adjusted fund balance should increase to \$7.3 million.

Moody's notes that while the borough's finances are strong, its flexibility is somewhat restrained on the revenue side by the 2% statutory tax levy cap. This limitation is partially offset by the banked levy capacity retained by the borough. On the expenditure side,

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

the borough's flexibility is also limited by its fixed costs. Fixed costs for debt service, OPEB, and required pension contributions comes to just over \$2.4 million, or a 13.4% of revenues.

#### LIQUIDITY

Liquidity will remain strong in the medium term. In 2015, net cash was \$6.6 million, or a strong 36.2% of revenues.

#### Debt and Pensions: Low Debt Burden with Average Pension Liabilities

New Providence's debt burden will remain modest. The net direct debt burden is 0.8% of equalized value. Management intends to issue notes periodically for routine capital projects and bonds out according to market conditions.

#### DEBT STRUCTURE

All of the borough'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 \$31.4 million, or an average 1.74 times Current Fund revenues. The borough's 2015 contribution to the retirement system was \$587,000 for the Police and Firemen's Retirement System (PFRS) and \$386,000 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: Strong Management Team with Written Policies

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. The borough also has written policies to maintain a minimum reported fund balance of \$1 million, which would equal 5.5% of 2015 revenues, and to keep debt below 1% of equalized value.

New Jersey Cities have an Institutional Framework score of Aa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's major revenue sources are subject to a cap which can be overridden with voter approval only. However, the cap of 2% still allows for moderate revenue-raising ability and excludes debt service, pensions, and certain health care costs. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally greater than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually. The state has public sector unions, which can limit the ability to cut expenditures, however, police and fire raises are bound by a 2% arbitration cap.

#### Legal Security

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

#### Use of Proceeds

Not applicable.

#### Obligor Profile

New Providence is a borough with a 2015 population of 12,355 located in northern [New Jersey](#) (A3 stable), within commuting distance of New York City.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER

1070981