

## CREDIT OPINION

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Update

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## 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,

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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.moodys.com](http://www.moodys.com) for a copy of this methodology.

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