

CREDIT OPINION

7 June 2017

New Issue

Rate this Research >>

Contacts

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

Orlie Prince 212-553-7738
*VP-Sr Credit Officer/
 Manager*
 orlie.prince@moody's.com

Morris County, NJ

New Issue - Moody's Assigns Aaa to Morris County, NJ's \$34.9M GO Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Morris County, NJ's \$34.9 million General Obligation Bonds, Series 2017 consisting of \$29.8 million General Improvement Bonds, \$1.6 million Park Bonds, \$600,000 County College Bonds, and \$3 million County College Bonds (Chapter 12 enhanced). Moody's maintains Aaa rating on the county's existing GO and GO-secured debt. The outlook remains stable.

The highest quality Aaa rating reflects the county's substantial tax base, strong and diverse economy, well managed financial operations, healthy reserve levels, and modest debt burden. The rating also incorporates notable yet manageable, enterprise risk arising from \$41.8 million of guaranteed debt on two renewable energy projects that are currently challenged by on-going financial difficulties.

Credit Strengths

- » Substantial tax base and diverse economy
- » Strong wealth and income levels
- » Additional financial flexibility provided by reserves outside the Current Fund
- » Conservative financial management practices

Credit Challenges

- » Notable, yet manageable, enterprise risk from solar energy projects

Rating Outlook

The stable outlook reflects our expectation that the county's financial position will remain strong over the near term and that the county will continue to benefit from its substantial and diverse tax base and above-average wealth levels.

Factors that Could Lead to an Upgrade

- » Not applicable

Factors that Could Lead to a Downgrade

- » Unanticipated difficulties in receiving lease payments or paying guaranteed debt service
- » Protracted structural budget imbalance

» Weakening of reserves and liquidity

Key Indicators

Exhibit 1

Morris (County of) NJ	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 95,105,783	\$ 90,882,566	\$ 88,929,779	\$ 90,306,904	\$ 90,973,340
Full Value Per Capita	\$ 190,976	\$ 181,884	\$ 177,957	\$ 180,791	\$ 182,522
Median Family Income (% of US Median)	181.6%	181.8%	180.8%	182.0%	182.0%
Finances					
Operating Revenue (\$000)	\$ 348,804	\$ 346,564	\$ 349,838	\$ 338,254	\$ 362,995
Fund Balance as a % of Revenues	23.9%	24.7%	25.5%	25.1%	24.9%
Cash Balance as a % of Revenues	26.6%	27.6%	28.7%	26.5%	26.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 277,467	\$ 277,120	\$ 260,643	\$ 222,049	\$ 251,375
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.7x	0.7x	0.7x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.2%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.8x	0.9x	1.1x	1.3x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.4%	0.5%	0.5%

Sources: Moody's Investors Service, Morris County audited financial statements

Detailed Rating Considerations

Economy and Tax Base: Substantial Tax Base with High Wealth and Strong Corporate Presence

The county's large and diverse \$92.5 billion tax base will remain stable given its advantageous location in northern [New Jersey](#) (A3 stable) about 25 miles from [New York City](#) (Aa2 stable), its highly skilled and well-educated labor force and the potential for additional tax base growth. While the tax base declined by a 5 year compound annual average of 0.5%, it has actually grown in 3 straight years. The county is among the wealthiest in the state and nation, with a median family income of 136% and 182% of state and national averages, and equalized full value per capita is strong at \$185,671. Unemployment rates have historically been low, as reflected in the March 2017 rate of 3.4%, compared with 4.3% and 4.6% for the state and nation, respectively. The county has 7.2% of vacant land, 33.5% residential, 4.9% commercial, 2.5% industrial, 28.6% is used for Parks and Open Space, and the remaining land is used for various other purposes.

The county also has a significant retail and corporate presence, including many Fortune 500 companies. The largest taxpayers include major pharmaceutical, retail, and financial firms. The top 10 taxpayers together represent only 2% of the county's total assessed valuation.

In addition, the county plans to expand the Central Park of Morris County. The county has executed a Land Management Agreement with the state for over 100 additional acres of property on this site, the former Greystone State Psychiatric Hospital property, which was converted to the Central Park of Morris County in 2001.

Financial Operations and Reserves: Stable Financial Position Supported by Conservative Fiscal Management

The county's financial position should remain strong in the medium term as management continues to budget conservatively. Current Fund balance increased slightly to \$53.3 million or 14.7% of revenues in 2016 from \$53 million, or 15.7% of Current Fund revenues in 2015. The 2016 fund balance is in line with the 5-year average of \$54.2 million, or 15.5% of revenues. 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 county's Moody's-

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 for the most updated credit rating action information and rating history.

adjusted Current Fund Balance increased to \$90.3 million (24.9%) from \$84.9 million (25.1%). The adjusted fund balance is somewhat above the 5 year average of \$85.7 million (24.8%).

The county's revenue streams are highly dependable with property taxes represented more than 62.1% of 2016 revenues. These revenues are guaranteed to be paid in full by the county's underlying municipalities.

Management is constantly looking at initiatives to help improve the financial position of the county. An important initiative is the lease arrangement for the Morris View Healthcare Center. The lease will materially reduce the 2017 estimated tax effort subsidy of \$11 million by between \$4 million and \$6 million a year for the next several years. The amount of savings is projected to increase further over the life of the lease, reaching \$8.2 million per annum by 2020. The plan to lease the facility to an experienced Health Care Provider will maintain the quality of the facility while also relieving the county of all or a portion of the expense. The county is considering using the savings to increase funding to community-based human services programs.

LIQUIDITY

In fiscal 2016, the county had a Current Fund net cash position of about \$96.9 million, or a strong 26.7% of revenues. The county's financial position is bolstered by significant cash (\$107 million) held in trust funds outside of the Current Fund, as well as \$38.2 million in the capital fund, which could be borrowed upon in a liquidity crunch. The majority of these funds are restricted for specific purposes and would need to be repaid.

Debt and Pensions: Minimal Direct Debt; Modest Enterprise Risk Related to Guaranteed Solar Energy Bonds

The county's debt will remain modest in the near to medium term as the county intends to issue only small amounts of debt. Post-sale, the county's net direct debt will be 0.3% of equalized value. Principal amortization is above-average at 95.2% over the next 10 years

DEBT STRUCTURE

All of the county's bonds are fixed rate and the county has no variable rate exposure. The county guarantees approximately \$114 million of Morris County Improvement Authority (MCIA) issued debt. Approximately \$41.8 million of the guaranteed MCIA debt was issued to finance two solar panel projects for a number of participating municipalities and school districts. Both projects have faced significant financial and legal challenges.

The project developer for Solar 1, Tioga Union, filed an assignment for the benefit of creditors in April 2013, largely due to a substantial decline in the solar renewable energy credit (SREC) market. Although the project is complete and is generating revenues, the developer has been unable to make its full lease payments requiring the county to step in and honor its guarantee by making up the missing debt service. The second project, Solar 2, was stalled due to disputes between the developer and contractor. A settlement was reached in March 2015 with the contractor and developer bringing an end to several years of legal challenges.

Despite this heightened enterprise risk, we believe that the potential liability to the county is modest and manageable. The maximum annual debt service for all outstanding solar-related debt of \$5.6 million represents a limited 5.8% of 2016 Current Fund cash. The county budgets the full amount of the guaranteed solar project debt service annually and has articulated its intention to make any guaranteed debt service payments necessary. In addition, the county reports that Solar 2 is now complete and running.

DEBT-RELATED DERIVATIVES

The county has no derivative exposure.

PENSIONS AND OPEB

The county participates in the New Jersey Police and Firemen's Retirement System and the Public Employees' Retirement System, two multi-employer, defined benefit retirement plans sponsored by the State of New Jersey. The county's adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, as of December 31, 2016, is \$528.8 million, or an average 1.5 times revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities.

The county's fiscal 2016 fixed costs, inclusive of debt service and annual contributions to pensions and OPEB, were manageable at \$71.4 million, or 19.7% of revenues.

Management and Governance

Management has a history of budgeting conservatively and maintaining sufficient level of fund balance. Moody's expects the county's economic tax base and finances to remain stable going forward.

New Jersey Counties 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 bonds is secured by the county's general obligation unlimited ad valorem tax pledge. The \$3 million County College Bonds are additionally secured by the NJ Chapter 12 enhancement program. It is expected that the state will pay 50% of the debt service.

Use of Proceeds

Proceeds will be used for various general improvement capital projects in the county, as well as in the parks and county colleges.

Obligor Profile

Morris County is located in northern New Jersey about 25 miles west of New York City. It is one of the wealthiest counties in the country.

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 for a copy of this methodology.

Ratings

Exhibit 2

Morris (County of) NJ

Issue	Rating
General Obligation Bonds, Series 2017	Aaa
Rating Type	Underlying LT
Sale Amount	\$34,943,000
Expected Sale Date	06/20/2017
Rating Description	General Obligation

Source: Moody's Investors Service

© 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 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 1073923

Contacts

Douglas Goldmacher
Analyst
douglas.goldmacher@moodys.com

212-553-1477

Orlie Prince
VP-Sr Credit Officer/
Manager
orlie.prince@moodys.com

212-553-7738

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454