MOODY'S INVESTORS SERVICE

CREDIT OPINION
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Morris (County of) NJ

Update to credit analysis

Summary

Morris County, NJ (Aaa stable) benefits from its favorable location as a wealthy outer suburb of New York City (Aa2 stable). The county has a history of strong governance with healthy reserves and a modest debt burden. While there is exposure to an underperforming solar project, the county has a detailed plan to address the issue which, in any case, is on far too small a scale to threaten the county's financial health in any material fashion.

Credit strengths

» Substantial tax base and diverse economy

» Strong wealth and income levels

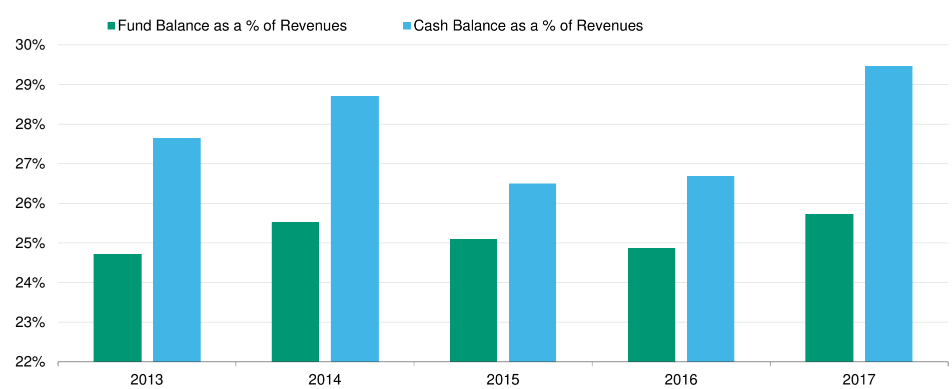
» Additional financial flexibility provided by reserves outside the Current Fund

» Conservative financial management practices

Credit challenges

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

Exhibit 1
Morris County finances remain strong



Fund balance figures in the above table reflect Moody's adjustments
Sources: Moody's Investors Service and Morris County audited financial statements

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 paying guaranteed debt service

» Unanticipated, protracted structural budget imbalance

» Weakening of reserves and liquidity

Key indicators

Exhibit 2

Morris (County of) NJ	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$90,882,566	$88,929,779	$90,306,904	$90,973,340	$92,542,897
Population	495,261	497,103	498,192	498,215	
Full Value Per Capita	$183,504	$178,896	$181,269	$182,599	
Median Family Income (% of US Median)	181.8%	180.8%	182.0%	182.2%	
Finances					
Operating Revenue ($000)	$346,564	$349,838	$338,254	$362,995	$349,094
Fund Balance ($000)	$85,667	$89,292	$84,887	$90,265	$89,825
Cash Balance ($000)	$95,819	$100,413	$89,648	$96,852	$102,868
Fund Balance as a % of Revenues	24.7%	25.5%	25.1%	24.9%	25.7%
Cash Balance as a % of Revenues	27.6%	28.7%	26.5%	26.7%	29.5%
Debt/Pensions					
Net Direct Debt ($000)	$417,075	$371,273	$327,729	$316,883	$310,887
3-Year Average of Moody's ANPL ($000)	$321,121	$370,658	$417,901	$455,190	$489,127
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.0x	0.9x	0.9x
Net Direct Debt / Full Value (%)	0.5%	0.4%	0.4%	0.3%	0.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.9x	1.1x	1.2x	1.3x	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.4%	0.5%	0.5%	0.5%

Fund balance figures in the above table reflect Moody's adjustments
Sources: Moody's Investors Service and Morris County audited financial statements

Profile

Morris County is located in northern New Jersey (A3 stable) about 25 miles west of New York City. It is one of the wealthiest counties in the country.

Detailed credit considerations

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

The county's large and diverse $94.2 billion tax base will remain stable given its advantageous location in northern New Jersey about 25 miles from New York City, its highly skilled and well-educated labor force and the potential for additional tax base growth. While the 5 year compound annual rate of growth is only 0.7%, the last two years have seen growth of 1.7% each year. The county is among the wealthiest in the state and nation, with a median family income of 136.2% and 182.2% of state and national averages, and equalized full value per capita is strong at $188,425. Unemployment rates have historically been low, as reflected in the March 2018 rate of 3.6%, compared with 4.7% and 4.1% for the state and nation, respectively. The county has 5.7% of vacant land, 33.9% residential, 4.9% commercial, 2.4% industrial, 25.8% 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 and there is no material concentration in the tax base.

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 for park purposes.

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. In 2017, Current Fund balance dipped fractionally to $52.7 million (15.1% of revenues) from $53.3 million or 14.7% of revenues in 2016. The 2017 fund balance is in line with the 5-year average of $55 million, or 15.8% 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-adjusted Current Fund Balance declined by the same proportion to $89.8 million (25.7%) from $90.3 million (24.9%). The adjusted fund balance is somewhat above the 5 year average of $88 million (25.2%).

The county's revenue streams are highly dependable with property taxes representing more than 66.8% of 2017 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 savings associated with the lease materially reduced the 2017 expenditures (which were only partially offset by enterprise revenues). Management expects to achieve annual savings 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 facility is being leased to an experienced Health Care Provider which will maintain the quality of the facility while also relieving the county of all or a portion of the expense.

LIQUIDITY

In fiscal 2017, the county had a Current Fund net cash position of about $102.9 million, or a strong 29.5% of revenues. The county's financial position is bolstered by significant cash ($105 million) held in trust funds outside of the Current Fund, as well as $50 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. The county's net direct debt is very low at approximately 0.2% of equalized value. Principal amortization is above-average at 95.4% 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 $104 million of Morris County Improvement Authority (MCIA) issued debt. Approximately 40% 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 1.6% of 2017 Current Fund revenues. The county budgets more than sufficient funds to cover the any potential shortfalls 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 well.

The county has developed a detailed plan to address the deficiencies of Solar 1 which it believes will put matters on a more stable footing.

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 2017 fixed costs, inclusive of debt service and annual contributions to pensions and OPEB, were manageable at $77.7 million, or 22.3% of revenues.

Governance

Management has a history and formal policy of budgeting conservatively and maintaining a healthy 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 overriden 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.

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