

CREDIT OPINION

20 September 2016

New Issue

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Morris (County of) NJ

New Issue - Moody's assigns Aaa to Morris County, NJ's \$29M GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Morris County, NJ's \$29 million General Obligation Bonds, Series 2016. Moody's maintains the county's Aaa general obligation rating on approximately \$300 million of GO and GO-guaranteed debt. The outlook is 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 heightened, but 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 and previously, although now settled, legal problems.

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

- » Modest declines in equalized valuation
- » Heightened 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 very sizeable 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	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 98,050,792	\$ 95,105,783	\$ 90,882,566	\$ 88,929,779	\$ 90,306,904
Full Value Per Capita	\$ 199,178	\$ 190,976	\$ 181,884	\$ 177,957	\$ 180,791
Median Family Income (% of US Median)	181.8%	181.6%	181.8%	180.8%	180.8%
Finances					
Operating Revenue (\$000)	\$ 336,726	\$ 348,804	\$ 346,564	\$ 349,838	\$ 338,254
Fund Balance as a % of Revenues	20.8%	22.4%	23.3%	23.9%	24.3%
Cash Balance as a % of Revenues	24.2%	26.6%	27.6%	28.7%	26.5%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 285,587	\$ 277,467	\$ 277,120	\$ 260,643	\$ 222,049
Net Direct Debt / Operating Revenues (x)	0.8x	0.8x	0.8x	0.7x	0.7x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	0.8x	0.9x	1.1x	1.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.3%	0.4%	0.4%	0.5%

Source: Moody's Investors Service

Recent Developments

Net debt increases to 0.3% of full value from 0.2% post sale. The debt burden continues to remain low and manageable for the county.

The 2016 budget increased by 3.43% and was approved unanimously by the Freeholder Board. Salaries and wages increased by 1.6%. The finance director reports expectations to end the year with fund balance near 2015 levels or slightly lower.

Detailed Rating Considerations

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

The county's large and diverse \$91 billion tax base will remain stable given its advantageous location in northern [New Jersey](#) (rated A2 negative) 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 compound annual average of - 2.7% between 2009 and 2014, the declines have begun to level off. In 2015, the tax base increased 2.3%, which officials attribute to new residential construction and a slight increase in home values. The county is among the wealthiest in the state and nation, with a median family income of 134% and 182% of state and national averages, and equalized full value per capita is strong at \$182,126. Unemployment rates have historically been low, as reflected in the March 2015 rate of 5%, compared with 6.8% and 5.6% 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 (Novartis AG, rated Aa3 stable, Bayer Healthcare LLC., and McNeil-PPC Inc.), retail (Rockaway Center Associates), and financial firms (Point View Campus). The largest 10 taxpayers together represent only 2% of the county's total assessed valuation.

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In addition, the county plans to expand the Central Park of Morris County. Management plans to execute a Land Management Agreement with the State of New Jersey for over 100 additional acres of property on this site. The site currently has 300 acres and was the 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 will maintain solid financial flexibility given conservative management practices and a strong trend of positive financial operations, despite declines in fiscal 2015. Fiscal 2015 fund balance decreased to \$53 million, a planned draw of \$7 million of lapsed appropriation reserves to finance a settlement related to its guaranteed solar power projects. Reported fund balance remained healthy at 15.7% of revenue. In Fiscal 2014 Current Fund balance increased to \$60.3 million, or 17.2% of revenues, from \$39.8 million, or 12.3% in fiscal 2009. In fiscal 2014, the county fully replenished its \$21.6 million fund balance appropriation and increased Current Fund balance by about \$5 million over the previous year. The positive performance in 2014 was largely due to strong revenue receipts including \$5.4 million of excess miscellaneous revenues anticipated and \$7.4 million of non-budget revenues, as well as \$13 million of lapsed appropriation reserves, reflecting the county's conservative budgeting practices. Fiscal 2015 adjusted Current Fund balance, which includes appropriation reserves and reserves for certain receivables, was declined slightly to \$78.2 million, or a healthy 23.1% of revenues from \$83.7 million or 24% of revenues.

The county's financial position is bolstered by significant reserves (\$101 million) held in trust funds outside of the Current Fund, as well as \$27.9 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. The county also maintains a significant \$14.4 million in its "cap bank" for 2016, providing additional financial flexibility by allowing the county to raise its levy above the state-required 2% cap by a like amount in the 2016 budget, if it so chooses. Property taxes represented more than 64.4% of 2015 revenues and the county implemented a tax increase in 2016 to bring in an additional \$7.5 million in tax revenue. Stability is derived from the state's requirement that the underlying municipalities provide the county with full receipt of taxes annually.

The 2016 budget increased by 3.43% and was approved unanimously by the Freeholder Board. Salaries and wages increased by 1.6%. The finance director is expecting to end the year with around fund balance near 2015 levels or slightly lower.

Management is constantly looking at initiatives to help improve the financial position of the county. An important initiative is the planned lease arrangement proposed for the Morris View Healthcare Center. The 2016 estimated tax effort subsidy was \$9.8 million and it is projected to increase by \$5.7 million over the next four years which would bring the cost to \$15.5 million 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. Savings would not be expected to be realized until 2018.

LIQUIDITY

In fiscal 2015, the county had a net cash position of about \$89.6 million, or a strong 26.5% of revenues. The county's liquidity is further bolstered by substantial cash reserves in dedicated trust funds outside the Current Fund including \$88.8 million in dedicated trust funds and \$27.9 million in the capital fund. While the funds can only be used for restricted purposes, the cash can be borrowed upon in the short-term, significantly increasing the county's financial flexibility.

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

The county's debt burden increases to 0.3% of full value from 0.2%, post sale. In addition, the county has a low overall debt burden after factoring in overlapping debt (1.7% of equalized value). The payout of principal is rapid with 93% of principal paid within 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 \$144 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 was unable to make its full lease payments and, in April 2015, the county utilized \$1.6 million of dedicated County Security Funds to make the lease payment. 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. However, the project remains incomplete and in 2015, the county was called upon to honor its guarantee, paying about \$2.1 million.

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 6.2% of 2015 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.

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 (rated A2 negative). The county's adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, as of December 31, 2015, is \$433.8 million, or an average 1.3 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 2015 fixed costs, inclusive of debt service and annual contributions to pensions and OPEB, were manageable at \$68.4 million, or 20% of expenditures.

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", or strong. While revenue raising ability is somewhat constrained by a 2% cap on the property tax levy, revenue collection has historically been extremely predictable as county property taxes are made whole by cities. Also, expenditure costs are highly predictable given the arbitration award cap.

Legal Security

The bonds are secured by the county's full faith and credit pledge. The county is obligated to levy ad valorem taxes without limitation or amount.

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 January 2014. Please see the Ratings 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 2016 Consisting of: General Improvement Bonds, Park Bonds, and County College Bonds	Aaa
Rating Type	Underlying LT

Sale Amount	\$29,000,000
Expected Sale Date	09/26/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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REPORT NUMBER 1042281