

New Providence, New Jersey

General Obligation Bonds New Issue Report

Ratings

New Issue

General Improvement Bonds,
Series 2015

AAA

Outstanding Debt

General Improvement Bonds

AAA

Rating Outlook

Stable

New Issue Details

Sale Information: \$9,980,000 General Improvement Bonds, Series 2015, scheduled to sell competitively on June 17.

Security: New Providence's (the borough) full faith and credit and unlimited taxing authority.

Purpose: To currently refund the borough's outstanding bond anticipation notes of \$3.25 million and to finance various capital improvement projects.

Final Maturity: March 1, 2029.

Key Rating Drivers

Strong Financial Profile: The borough's strong financial management and prudent budgeting practices have led to the maintenance of ample reserve levels, providing the borough with a high degree of financial flexibility.

Strong Socioeconomic Indicators: Wealth levels are above average, representative of the highly educated professionals residing in the borough and its location within commuting distance of major employment centers.

Manageable Debt Levels: Overall debt levels are moderate and are not expected to rise. The borough's pension and other post-employment benefits (OPEB) liabilities are manageable.

Stable and Diverse Tax Base: The borough's primarily residential tax base has experienced modest declines over the past five years due to tax appeals and some recessionary value declines. New development has continued, offsetting some of the declines, and growth in taxable values has resumed in 2015. The top 10 taxpayers are diverse and represent 8% of the tax base.

Rating Sensitivities

Related Research

Fitch Rates New Providence NJ's GO Bonds 'AAA'; Outlook Stable (May 2015)

Continued Strong Financial Management: The rating is sensitive to shifts in fundamental credit characteristics, including the borough's strong financial management practices and healthy reserves. The Stable Rating Outlook reflects Fitch Ratings' expectation that such shifts are highly unlikely over the coming review cycle.

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Rating History

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	5/21/15
AAA	Affirmed	Stable	4/17/14
AAA	Assigned	Stable	5/7/12

Credit Profile

New Providence is located in Union County, roughly 15 miles from downtown Newark and 28 miles west of New York City. The borough has a population of 12,332, up 3.6% since 2000.

Proximity to Employment Centers, Above-Average Wealth Levels

Borough residents are primarily working professionals who commute to nearby employment areas including New York City, Newark and Morristown. Wealth levels are very high, as reflected in median household income levels equal to 182% and 246% of the state and national averages, respectively. The borough features a low poverty rate of 5.2% and a workforce exhibiting a high level of educational attainment (28% of residents hold an advanced degree compared with the national rate of 11%).

General Fund Financial Summary

(\$000, Years Ended Dec. 31)

	2010	2011	2012	2013	2014 ^a
Property Tax	11,536	11,832	11,945	12,379	12,756
Miscellaneous Revenues Anticipated	4,297	3,324	3,637	3,706	3,529
Nonbudget Revenues	180	204	512	267	278
Unexpended Appropriation Reserves	370	335	376	412	1,036
Other	16	3	393	35	17
Total Municipal Revenues	16,399	15,698	16,863	16,799	17,616
County, School, Open Space and Special District Tax Passed Through	41,445	42,958	44,015	45,129	46,356
Total Revenues	57,844	58,656	60,878	61,928	63,972
Salaries and Wages	5,420	5,547	5,621	5,727	5,941
Other Expenses	7,149	6,717	6,643	6,895	7,065
Municipal Deferred Charges and Statutory Expenditures	1,222	1,446	1,358	1,648	1,645
Capital Improvement Fund	0	240	520	350	400
Municipal Debt Service	2,138	1,872	1,986	1,765	1,679
Other Expenses	4	206	373	34	151
Total Municipal Expenses	15,933	16,028	16,501	16,419	16,881
County, School, Open Space and Special District Tax Passed Through	41,445	42,958	44,015	45,129	46,356
Total Expenditures	57,378	58,985	60,516	61,548	63,238
Operating Surplus/(Deficit)	466	(329)	362	380	652
Total Fund Balance	2,791	2,462	2,824	3,204	3,856
% Total Municipal Expenditures, Transfers Out and Other Uses	17.5	15.4	17.1	19.5	22.8
Unrestricted Fund Balance	2,791	2,462	2,824	3,204	3,856
% Total Municipal Expenditures, Transfers Out and Other Uses	17.5	15.4	17.1	19.5	22.8

^aUnaudited. Note: Numbers may not add due to rounding.

Stable and Diverse Tax Base

The borough has a 2014 market value of \$2.47 billion, which translates to a high \$200,000 market value per capita, further evidence of high wealth levels. The borough's assessed valuation (AV) has remained relatively stable over the past five years, although commercial property tax appeals occurred in 2012, primarily as a result of the sale of a 26-acre property for redevelopment. Construction of a 420-unit continuing care retirement community, Lantern Hill, with an estimated cost of \$75 million, has commenced on this site. The first phase of the new

Related Criteria

[Tax-Supported Rating Criteria \(August 2012\)](#)
[U.S. State Government Tax-Supported Rating Criteria \(August 2012\)](#)

facility reportedly sold out quickly and is expected to open in late 2015. This project, along with other new commercial construction and two new town home developments, are projected to boost 2016 taxable values.

Taxpayer concentration is low, as the top 10 taxpayers comprise 7.8% of AV and consist of a mix of residential, office, retail and commercial companies. The largest taxpayer at 1.6% is the B.O.C. Group, Inc., a division of Linde Group, a leading worldwide gases and engineering company.

Strong Financial Condition

The borough's conservative budget practices and strong fiscal policies have contributed to historically solid current fund reserves; 2013 closed with a \$380,000 surplus, increasing current fund reserves to \$3.2 million, or a healthy 20% of spending. Unaudited results for 2014 showed another year of surplus results, with reserves projected to increase to \$3.9 million, or 23% of spending. Reserves remain well above the borough's adopted policy level of \$750,000, which translates to a fairly narrow 4%–5% of current spending.

The borough also prudently maintains special reserves pursuant to its financial policies that totaled \$1.2 million at year-end 2014. These funds were established per policy for typically volatile expenditure items such as snow removal and potential tax appeals and include a capital surplus fund.

These reserves, combined with the borough's projected 2014 current fund, total just over \$5 million, or 30% of current fund operating expenditures, providing the borough with ample financial flexibility.

2015 Budget Includes Modest Tax Increase

The 2015 budget was adopted April 13, 2015 and includes a 1.88% increase in the municipal portion of the tax levy and reflects the anticipated increase in AV. Increases in pension, health and salary costs are the primary expenditure drivers. Management also included an additional \$225,000 appropriation for potential tax appeals. New Jersey municipalities are subject to a 2% tax levy cap, although debt service, increases in pension and healthcare costs and tax revenues from new development are exempt. The borough has been successful in managing within this tax cap.

Moderate Debt Levels with Rapid Amortization

Overall debt levels are moderate at \$4,272 per capita and 2.1% of market value, due primarily to overlapping county and school debt.

Debt amortization is very rapid, with 77% of principal retiring in 10 years. The borough's capital needs are minimal and include general capital and infrastructure projects of close to \$2 million (to be funded from a mix of budget appropriations and short-term borrowing). Debt policies provide for rapid amortization and maintenance of level debt service costs, which Fitch views favorably.

Debt Statistics

(\$000)	
This Issue	9,980
Outstanding Direct Debt	10,520
Net Direct Debt	20,500
Overlapping Debt	32,181
Overall Debt	52,681
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	1,662
As % of Market Value ^b	0.8
Overall Debt Per Capita (\$) ^a	4,272
As % of Market Value ^b	2.1

^aPopulation: 12,332 (2013). ^bMarket value: \$2,465,220,000 (2014). Note: Numbers may not add due to rounding.

Manageable Pension and OPEB Liabilities

The majority of the borough's employees participate in either the state-operated police and firemens' retirement system or the public employees' retirement system; the programs are funded at an estimated 69% and 67%, respectively, using Fitch's conservative 7% investment rate of return assumption. The borough's contributions, which are actuarially determined, totaled \$842,000, or roughly 5% of 2014 current fund spending. The 2015 contributions are expected to increase modestly.

The borough's OPEB obligations are not material due to stringent eligibility requirements. The borough paid \$36,000 in annual costs in 2014.

Carrying costs (including debt service, pension and OPEB costs) were moderate at 15% of current fund spending in 2014. Carrying costs are expected to increase slightly due to the new debt amortizing beginning in 2016 and climbing pension costs.

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