

MOODY'S INVESTORS SERVICE

New Issue: Moody's upgrades New Providence, NJ's GO to Aa1

Global Credit Research - 29 May 2015

Affects \$20.5M in debt, post-sale including \$9.98M Ser. 2015 GO bonds

NEW PROVIDENCE (BOROUGH OF) NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE	RATING
General Improvement Bonds, Series 2015	Aa1
Sale Amount	\$9,980,000
Expected Sale Date	06/17/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, May 29, 2015 --Moody's Investors Service has assigned a Aa1 rating to the Borough of New Providence, NJ's \$9.98 million 2015 General Improvement bonds. Concurrently, Moody's upgrades to Aa1 from Aa2 the rating on the borough's outstanding long-term parity debt. Post-sale, the borough will have \$20.5 million in long-term GO debt.

SUMMARY RATING RATIONALE

The upgrade to Aa1 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 socioeconomic wealth levels, and low debt burden.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Strengthening of the borough's tax base beyond current growth expectations

WHAT COULD MAKE THE RATING GO DOWN

-Material deterioration of the tax base and socioeconomic indices

-Significant decrease in reserves

STRENGTHS

-Large tax base

-Strong wealth levels

-Strong management practices

CHALLENGES

-Recent history of high tax appeals

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE TAX BASE WITH HIGH WEALTH 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 \$2.4 billion tax base are well above-average, with median family income at 235% of the national median. The five-year compound annual decline for New Providence's equalized value is 1%, however, the borough actually grew 0.2% in 2015. Management reports considerable ongoing redevelopment which is expected to lead to increases in assessed value of at least 4% over 5 years. 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. The complex, already under construction, is expected to add approximately \$50 million to assessed value equal to roughly \$93 million in full value.

FINANCIAL OPERATIONS AND RESERVES: STRONG FINANCES WITH HEALTHY RESERVES

The borough's financial position should remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased significantly since 2008 to \$3.2 million, or 19.1% of revenues, from \$2.4 million, or 15.6% of revenues, due to management efforts. 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 increased to \$5.9 million (35.3%) in 2013. Preliminary 2014 results indicate that unadjusted Current Fund balance increased to approximately \$3.9 million while adjusted fund balance increased to \$6.5 million. The balance sheet gains were caused primarily by conservative budgeting and aggressive use of shared service agreements to contain costs.

Moody's notes that while the borough's flexibility is restrained on the revenue side by the 2% statutory tax levy cap, the borough maintains considerable budgetary flexibility because of its low level of fixed costs. Including debt service, pensions, and other post employment benefits, total fixed costs come to a modest \$2.7 million, or 16.5% of expenditures.

Liquidity

Liquidity is likely to remain strong in the medium term. Net cash increased to \$6.5 million, or 38.6% of revenues, in 2013.

DEBT AND PENSIONS: MODEST DEBT BURDEN; AVERAGE PENSION OBLIGATIONS

New Providence's debt burden will remain modest for the medium term. Including this issuance, in 2015, the borough's net direct debt burden was 0.9% of equalized value. Principal amortization is slightly below average at 67.9% over the next 10 years. Management has limited plans to issue additional debt.

Debt Structure

All of New Providence'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 \$26 million, or an average 1.19 times Current Fund revenues. The borough's 2013 contribution to the retirement system was \$574,000 for the Police and Firemen's Retirement System (PFRS) and \$338,000 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

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.

New Jersey cities have an institutional framework score of "Aa", or strong. Expenditure costs are highly predictable given the arbitration award cap. While the property tax levy limitation somewhat constrains revenue raising ability, the risk of property tax appeals has declined as cities have become better at preventing appeals.

KEY STATISTICS

- Equalized Value, 2015: \$2.4 billion
- Equalized Value Per Capita, 2015: \$195,552
- Median Family Income as % of US Median (2012): 235%
- Fund Balance as % of Revenues, Moody's-adjusted for 2013: 35%
- 5-Year Dollar Change in adjusted Fund Balance as % of Revenues: 14.7%
- Cash Balance as % of Revenues, 2013: 38.6%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 12.0%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.01x
- Net Direct Debt as % of Equalized Value: 0.85%
- Net Direct Debt / Operating Revenues: 1.2x
- 3-Year Average ANPL as % of Equalized Value: 0.83%
- 3-Year Average ANPL / Operating Revenues: 1.2x

OBLIGOR PROFILE

New Providence is a borough with a population of 12,000 located in northern New Jersey, within commuting distance of New York City.

LEGAL SECURITY

Debt service on the rated debt is secured by the borough's general obligation unlimited ad valorem tax pledge.

USE OF PROCEEDS

The \$10.0 million of total proceeds, will be used to permanently finance various capital projects.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating

action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

Analysts

Douglas Goldmacher
Lead Analyst
Public Finance Group
Moody's Investors Service

Josellyn Yousef
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



© 2015 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 CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("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 FOR RETAIL INVESTORS TO CONSIDER MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS IN MAKING ANY 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.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

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 clients. It would be dangerous for "retail clients" to make any investment decision based on MOODY'S credit rating. If in doubt you should contact your financial or other professional adviser.

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.