

CREDIT OPINION

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Contacts

Susanne Siebel +1.212.553.1809
 Associate Lead Analyst
 susanne.siebel@moodys.com

Orlie Prince +1.212.553.7738
 VP-Sr Credit Officer/
 Manager
 orlie.prince@moodys.com

CLIENT SERVICES

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

Monroe (Township of) NJ (Gloucester County)

Update to credit analysis following upgrade of Monroe Township's GO

Summary

Monroe Township tax base located in southern New Jersey has begun to recover after years of declines. The township's financial position has remained stable and strong over the five years and will continue to be healthy in the future. The debt burden of the township will remain low despite plans to finance annual capital needs. Similar to other New Jersey municipalities, Monroe's pension burden has been growing but annual contributions will remain manageable.

On February 6, 2018, Moody's upgraded the township's outstanding general obligation rating to Aa3 from A1.

Credit strengths

- » Low debt burden
- » Healthy financial position and operations

Credit challenges

- » Growing pension burden

Rating outlook

Moody's typically does not assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material growth in tax base and wealth indicators

Factors that could lead to a downgrade

- » Material decline in reserves
- » Contraction of tax base and wealth levels
- » Significant increase in long-term liabilities

Key indicators

Exhibit 1

Monroe (Township of) NJ (Gloucester County)	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$2,657,285	\$2,625,176	\$2,516,655	\$2,609,445	\$2,630,673
Population	36,087	36,386	36,700	36,665	36,908
Full Value Per Capita	\$73,636	\$72,148	\$68,574	\$71,170	\$71,277
Median Family Income (% of US Median)	132.5%	127.4%	127.9%	128.4%	128.4%
Finances					
Operating Revenue (\$000)	\$29,179	\$33,134	\$32,459	\$34,244	\$34,932
Fund Balance (\$000)	\$5,927	\$7,846	\$7,679	\$8,645	\$9,059
Cash Balance (\$000)	\$8,085	\$6,804	\$6,002	\$8,175	\$8,710
Fund Balance as a % of Revenues	18.5%	21.9%	23.7%	25.2%	25.9%
Cash Balance as a % of Revenues	27.7%	20.5%	18.5%	23.9%	24.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$17,987	\$16,342	\$15,364	\$14,520	\$13,876
3-Year Average of Moody's ANPL (\$000)	\$37,240	\$43,304	\$48,837	\$56,836	\$64,826
Net Direct Debt / Operating Revenues (x)	0.6x	0.5x	0.5x	0.4x	0.4x
Net Direct Debt / Full Value (%)	0.7%	0.6%	0.6%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.3x	1.5x	1.7x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.6%	1.9%	2.2%	2.5%

Note: fund balance reflects Moody's adjusted fund balance

Source: Moody's Investors Service; Monroe Township financial statements

Profile

Monroe Township is located in Gloucester County approximately 25 miles east of Philadelphia (A2 negative). The township's 2010 population, according to the 2010 US Census, is 36,129.

Detailed credit considerations

Economy and Tax Base: Moderately-sized tax base

The township's \$2.7 billion tax base will continue to stabilize and grow in the near term as new residential developments in progress. Located in Gloucester County, Monroe Township is located within commuting distance to the Philadelphia job markets. The mostly residential township has a new 1,600 unit residential development coming on line in the coming 12-18 months. Also, there is currently a 195 unit senior living community in construction.

The township's wealth indicators are slightly below average in relation to the state but strong compared to the nation with median family income amounting to 95.9% and 128.4%, respectively.

Finances and Liquidity: Healthy financial position

The township's financial position will remain strong given prudent management of operations. At the end of fiscal 2016, the township's Current Fund balance was \$5.4 million or 15.5% of operating 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 township's Moody's adjusted fund Current Fund balance at the end of fiscal 2016 totaled \$9 million or a strong 25.9% of operating revenues.

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The fiscal 2017 budget included an overall increase of 1.7% from the fiscal 2016 budget. Management reports another positive year of operations with total Current Fund balance increasing to \$6 million. The preliminary fiscal 2018 budget is expected to remain in line with previous years indicating that the township's financial position will remain strong in the coming years.

LIQUIDITY

The township's liquidity position is healthy with fiscal 2016 cash levels end at \$8.7 million or 24.9% of operating revenues.

Debt and Pension: Low debt burden

The township's debt burden will remain low with scheduled capital plans as principal amortizes. At the end of fiscal 2016, the township's debt burden was low at 0.5% of full value. The township maintains a five year capital plan that includes annual road improvements. The township plans on issuing short-term notes for annual capital needs and will permanently finance into long-term debt once current long term debt matures. Management is aiming to maintain level debt service to ensure annual operations remain stable.

DEBT STRUCTURE

The township's debt is all fixed rate with 90% of principal amortizing within ten years.

DEBT-RELATED DERIVATIVES

The township is not party to any interest-rate swap or derivative agreements.

PENSIONS AND OPEB

Monroe Township has an above-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 city, under our methodology for adjusting reported pension data, is \$79.3 million, or an above-average 2.27 times Current Fund revenues. The township's 2016 contribution to the retirement system was \$2.1 million for the combined Police and Firemen's Retirement System (PFRS) 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 township's reported liability information, but to improve comparability with other rated entities. Total fixed costs, when considering debt, pension, and OPEB contributions, amounted to a manageable 18.3% of revenues.

Management and Governance

Township management is active in conservative budgeting to ensure that any reserves used to balance the budget are replenished.

New Jersey Cities 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.

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