

MOODY'S

INVESTORS SERVICE

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

Global Credit Research - 28 Sep 2015

Assigns \$3.7M in Ser. 2015 bonds; Upgrade affects \$72.5M in rated GO debt

OLD BRIDGE (TOWNSHIP OF) NJ
Cities (including Towns, Villages and Townships)
NJ

Moody's Rating

ISSUE	RATING
Energy Savings Improvement Bonds, Series 2015	Aa1
Sale Amount	\$3,700,000
Expected Sale Date	10/06/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, September 28, 2015 --Moody's Investors Service has upgraded the Township of Old Bridge, NJ to Aa1 from Aa2 and assigned a Aa1 to the township's \$3.7 million Energy Savings Improvement Bonds, Series 2015. The upgrade affects approximately \$72.5 million of outstanding parity debt. Post-sale, the township will have \$76.2 million in rated long-term GO and GO guaranteed debt.

SUMMARY RATING RATIONALE

The upgrade to Aa1 reflects the township's large tax base, above-average wealth indicators, and strong financial position.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Significant strengthening of the township's tax base and socioeconomic indices
- Continued growth in Current Fund reserves and liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Material deterioration of the tax base and socioeconomic indices
- Significant decrease in reserves

STRENGTHS

- Above-average socioeconomic profile
- Strong reserve position

CHALLENGES

- Above-average fixed costs

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 township's tax base will remain strong given its access to employment opportunities in the New York City (Aa2 stable) area and strong wealth levels. Old Bridge, located 36 miles south of Manhattan, is a primarily residential community with a modest commercial base. Socioeconomic indicators in the \$7 billion tax base are well above-average, with median family income at 167% of the national median. The five-year compound annual decrease for Old Bridge's equalized value is 2.2%, however, the base grew modestly in 2014 and 2015. Management reports ongoing residential and commercial development, which is expected to lead to increases in assessed value. This development ranges from single-family homes to hotels and medical facilities.

FINANCIAL OPERATIONS AND RESERVES: HEALTHY FINANCES WITH HIGH RESERVES AND POSITIVE TRENDS

The township's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased modestly in 2014 to \$8.9 million, or 16.8% of Current Fund revenues, from \$8.0 million, or 15.5% of revenues in 2013. 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 adjusted Current Fund Balance increased to \$13.0 million or an ample 24.6% in 2014 from \$12.0 million or 23.2%. The balance sheet gains were caused primarily by conservative budgeting. Notably, the township has significantly reduced its reliance on one time revenues. Since 2010, when the township shifted from a fiscal to a calendar year, the adjusted fund balance has increased in four consecutive years while averaging nearly \$11 million or 20.9% of current fund revenues. Year-to-date, the township is outperforming the budget and is currently projecting another modest surplus.

While the finances are strong, revenue-raising flexibility is somewhat restrained by the 2% statutory tax levy cap. On the expenditure side, flexibility is also limited by above-average fixed costs. Fixed costs for debt service, required pension contributions, and other post-employment benefit payments come to \$11.8 million, or an above-average 22.7% of expenditures.

Liquidity

Liquidity will remain strong in the medium term. Current Fund net cash increased modestly to \$20 million, or a strong 37.8% of revenues, in 2014.

DEBT AND PENSIONS: MODEST DEBT BURDEN; ABOVE-AVERAGE PENSION OBLIGATIONS

Old Bridge's debt burden will remain modest for the medium term given rapid payout and limited plans to issue additional debt. The township's debt burden is 0.5% of full value, and increases to 1.7% when incorporating overlapping school and county debt. Amortization is rapid with 85.3% of principal repaid within 10 years.

Debt Structure

All of the township's debt is fixed rate. Total debt comes to \$87.7 million, of which, \$50.7 million was issued by the utility authority and guaranteed by the township.

Debt-Related Derivatives

The township is not party to any interest rate swaps or other derivatives.

Pensions and OPEB

The 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 township, under our methodology for adjusting reported pension data, is \$79.6 million, or an above-average 1.50 times Current Fund revenues. The 2014 contribution to the retirement system was \$2 million for the Police and Firemen's Retirement System (PFRS) and \$973,000 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 township's reported liability information, but to improve comparability with other rated

entities.

MANAGEMENT AND GOVERNANCE

The township's strong management has a history of conservative budgeting and only appropriates what it believes can be replenished.

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: \$7 billion
- Equalized Value Per Capita, 2015: \$106,964
- Median Family Income as % of US Median (2012): 167%
- Fund Balance as % of Revenues, Moody's-adjusted for 2014: 24.6%
- 5-Year Dollar Change in adjusted Fund Balance as % of Revenues: 9.5%
- Cash Balance as % of Revenues, 2014: 37.8%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 13.4%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x
- Net Direct Debt as % of Equalized Value: 0.5%
- Net Direct Debt / Operating Revenues: 0.7x
- 3-Year Average ANPL as % of Equalized Value: 1.18%
- 3-Year Average ANPL / Operating Revenues: 1.6x

OBLIGOR PROFILE

Old Bridge is a township with a population of approximately 65,375 located in northern New Jersey, within commuting distance of New York City.

LEGAL SECURITY

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

USE OF PROCEEDS

Proceeds will finance various energy efficiency projects throughout the township. Although the bonds are backed by a GO pledge, it is expected that cost savings from the projects will be sufficient to cover debt service.

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.moody.com for a copy of this methodology.

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