

**CREDIT OPINION**

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Update

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**Borough of North Caldwell, NJ**

Update - Moody's Upgrades Borough of North Caldwell, NJ's  
 GO to Aa2

**Summary Rating Rationale**

Moody's Investors Service has upgraded the Borough of North Caldwell, NJ's General Obligation rating to Aa2 from Aa3.

The Aa2 rating reflects North Caldwell's improved financial position, facilitated by ongoing growth in the borough's very strong tax base and management's willingness to increase taxes to maintain a balanced budget. The Aa2 also incorporates the borough's moderately sized tax base, low debt burden, and above-average pension liabilities.

**Credit Strengths**

- » Affluent tax base benefitting from proximity to New York City (Aa2 stable) area employment and economic center
- » Strong demographic profile with high wealth levels
- » Improved financial trend

**Credit Challenges**

- » Elevated pension burden

**Rating Outlook**

Outlooks are generally not assigned to local governments with this amount of debt outstanding.

**Factors that Could Lead to an Upgrade**

- » Material increase in the borough's tax base
- » Significant increase in reserves or liquidity

**Factors that Could Lead to a Downgrade**

- » Material decline in the borough's tax base and demographics
- » Deterioration of reserves or cash position
- » Substantial increase in debt or pension burden

## Key Indicators

Exhibit 1

North Caldwell (Borough of) NJ	2011	2012	2013	2014	2015
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 1,675,732	\$ 1,597,589	\$ 1,603,361	\$ 1,653,892	\$ 1,716,965
Full Value Per Capita	\$ 266,370	\$ 254,555	\$ 254,219	\$ 258,138	\$ 267,648
Median Family Income (% of USMedian)	262.5%	292.2%	316.9%	309.0%	304.9%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 8,136	\$ 8,380	\$ 8,644	\$ 8,870	\$ 8,764
Fund Balance as a % of Revenues	16.1%	10.8%	15.9%	18.5%	20.3%
Cash Balance as a % of Revenues	19.3%	18.0%	25.3%	27.6%	30.4%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 7,047	\$ 7,135	\$ 7,042	\$ 7,428	\$ 6,941
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	0.8x	0.8x	0.8x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.4%	0.4%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.1x	1.2x	1.3x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.6%	0.7%	0.7%	0.9%

Source: Moody's Investors Service and North Caldwell Audited Financial Statements

## Detailed Rating Considerations

### Economy and Tax Base: Moderately Sized Residential Community With High Wealth Levels

The borough's \$1.8 billion tax base, located in Essex County (Aa2 positive) approximately 23 miles west of New York City, will remain stable and continue to steadily grow due to its continued residential development projects. North Caldwell is a predominantly residential community that benefits from strong wealth levels and a favorable location in the New York metropolitan employment area. Median home values in the borough are a high \$716,300, which is 227% of the state median and 401% of the national median. The borough experienced four consecutive years of full value increases from 2013 to 2016, indicating a very stable and healthy tax base.

Management attributes tax base growth to ongoing residential developments, which include single-family homes ranging from \$1.5 million to \$2.5 million, and town homes, ranging from \$730,000 to \$850,000. In addition, there are 62 single-family homes planned for construction on the formerly tax-exempt Hilltop nature preserve site. Management expects that outstanding building permits and continued renovations and expansions upon existing housing stock will result in further tax base growth.

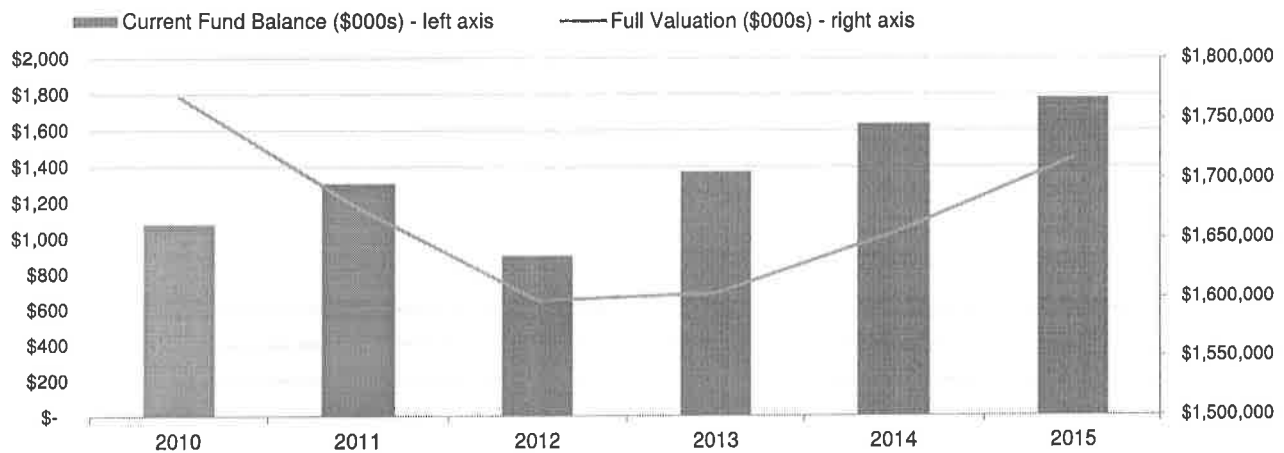
Resident wealth levels are very strong with a median family income of 305% of the national level. The unemployment rate in the county is higher than the state and nation at 5.6% in January 2017 compared to 4.7% and 5.1% respectively.

### Financial Operations and Reserves: Healthy Finances With Growing Reserves

The borough's finances have gradually improved over the last three years and are expected to remain stable due to conservative budgeting practices. Fiscal 2015 ended with an increase in reported Current Fund Balance to \$1.3 million, or 15.1% of revenues, from \$970,852, or 10.9%, in fiscal 2014. 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 Moody's-adjusted Current Fund Balance increased to \$1.8 million, or 20.3% of revenues, in 2015 from \$1.6 million, or 18.5%, in fiscal 2014. Management attributes the increase due to added tax bills from new construction and rise in construction fees.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moodys.com](http://www.moodys.com) for the most updated credit rating action information and rating history.

Exhibit 2

**Strengthening Tax Base Fuels Growth in Reserves**

Source: Moody's Investors Service

The borough has maintained a trend of running operating surpluses since fiscal 2013 as revenues outpace expenses. Revenues have grown over the last five years by 10% while expenditures have grown by 5%. Fiscal 2015 revenues are primarily comprised of property taxes (70.9%), minimal state aid (5.2%), and miscellaneous revenues (20.2%), which are made up of a wide variety of fees.

Management expects a slight decrease in fund balance for fiscal year 2016 due to a decline in miscellaneous revenues from recreation program fees and municipal court fees. Management does not anticipate any major fluctuations for the fiscal 2017 budget, though increases in pension contributions are expected.

**LIQUIDITY**

The borough is expected to maintain strong liquidity. At the end of fiscal 2015, the borough had \$2.6 million in cash, or 30% of revenues.

**Debt and Pensions: Low Debt and Elevated Pension Liability**

The borough's low debt burden will remain manageable due to limited additional borrowing plans. The borough has \$6.9 million in debt, or 0.4% of full value. The net debt excludes approximately \$558,000 of long term debt paid by the Water Utility fund, which has been backed out as self-supporting. The debt burden increases to 2.7% of full value when incorporating overlapping county and school debt. Amortization is rapid with 100% of principal repaid within ten years.

Debt service made up 9.6% of the borough's fiscal 2015 expenditures. Fiscal 2015 fixed costs, inclusive of debt service and annual contributions to pensions and OPEB, came to a manageable 15.6% of operating revenues.

**DEBT STRUCTURE**

All of the borough's debt is fixed rate.

**DEBT-RELATED DERIVATIVES**

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

**PENSIONS AND OPEB**

North Caldwell 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 borough, under our methodology for adjusting reported pension data, is \$17.5 million, or an above-average 1.99 times Current Fund revenues. The borough's 2015 contribution to the retirement system was \$389,000 for the Police and Firemen's Retirement System (PFRS) and \$157,000 for the Public Employees' Retirement System (PERS), or 6.5% of expenditures (combined). 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.

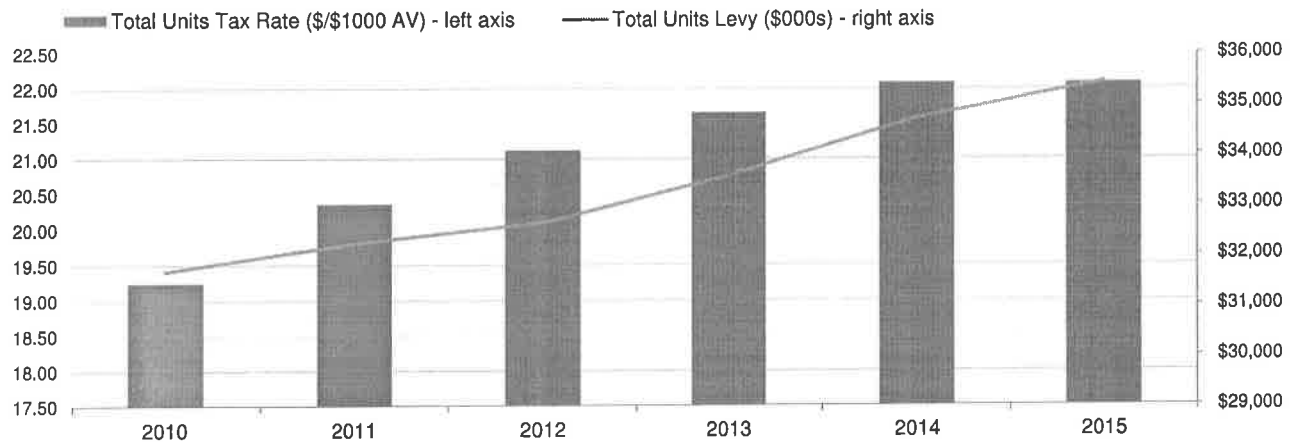
The borough also provides Other Post-Employment Benefits (OPEB) to its employees. During fiscal 2015, the borough contributed \$15,000.

### Management and Governance

North Caldwell displays conservative budgeting practices given a trend of growing Current Fund reserves, careful monitoring of expenditures, and willingness to increase tax rates given increases in property and water rates.

Exhibit 3

#### Management Displays Willingness to Increase Taxes to Maintain a Balanced Budget



Source: Moody's Investors Service

New Jersey cities have an institutional framework score of "Aa," or strong. Revenues are moderately predictable and mostly consist of property taxes; however, cities are required to make county and school district tax levies whole in the event of tax appeals. Revenue raising ability is moderate as cities are constrained by a 2% cap on the property tax levy. Cities can raise the levy above the cap for debt service, pensions and certain qualified expenses. Expenditures, which primarily consist of personnel and public safety, are highly predictable given a 2% arbitration award cap for disputes with police and fire employees. Cities have a moderate ability to adjust costs given the presence of collective bargaining and high fixed costs.

### Legal Security

The bonds are secured by the borough's general obligation unlimited tax pledge.

### Use of Proceeds

Not applicable.

### Obligor Profile

The borough of North Caldwell is located in Essex County, approximately 23 miles from New York City, with an estimated population of 6,661 (US Census 2015).

### Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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