

MOODY'S

INVESTORS SERVICE

New Issue: Moody's upgrades Edgewater, NJ's GO to Aa2: assigns MIG 1 to \$15.4M in BANs

Global Credit Research - 08 Jul 2015

Affects \$17.5M in rated GO debt, including \$11.1M Ser. 2015 GO bonds

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

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Series 2015		Aa2
Sale Amount	\$11,085,000	
Expected Sale Date	07/15/15	
Rating Description	General Obligation	
General Obligation Notes consisting of General Capital Bond Anticipation Notes and Marina Utility Bond Anticipation Notes		MIG 1
Sale Amount	\$15,400,000	
Expected Sale Date	07/15/15	
Rating Description	Note: Bond Anticipation	

Moody's Outlook NOO

NEW YORK, July 08, 2015 --Moody's Investors Service has assigned a Aa2 rating to the Borough of Edgewater, NJ's \$11.1 million General Obligation Bonds, Series 2015. Moody's has also assigned a MIG 1 short term rating to \$15.4 million of General Obligation Notes consisting of \$14.95 million of General Capital Bond Anticipation Notes and \$450,000 of Marina Utility Bond Anticipation Notes. Concurrently, Moody's upgrades to Aa2 from Aa3 the rating on the borough's outstanding long-term general obligation unlimited tax debt. Post-sale, the borough will have \$21.9 million in long-term GO debt.

SUMMARY RATING RATIONALE

The upgrade to Aa2 rating reflects the borough's improved financial position with healthier reserves. It also reflects ongoing growth in the borough's tax base.

The MIG 1 short term rating reflects the borough's strong fundamental credit quality, adequate liquidity, and established record of market access.

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 and socioeconomic indices
- Continued growth in reserves

WHAT COULD MAKE THE RATING GO DOWN

-Material deterioration of the tax base and socioeconomic indices

-Significant decrease in reserves

-Increased debt burden

STRENGTHS

-Above-average socioeconomic profile

-Favorable location near New York City (Aa2 stable)

-Positive demographic trend

-Growing tax base

CHALLENGES

-Elevated taxpayer concentration

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 continue to grow modestly given its access to employment opportunities in the New York City area, ongoing redevelopment, and above-average demographic indicators. Edgewater, located immediately across the Hudson River from New York City, is a primarily residential community with a strong commercial base. Socioeconomic indicators in the \$3.1 billion tax base are well above-average, with median family income at 189% of the national median, up from 145% in 1999. The five-year compound annual increase for Edgewater's equalized value is 1.6%. Management reports considerable ongoing redevelopment which is expected to lead to increases in assessed value. This redevelopment includes both pure residential and mixed use properties.

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 modestly in 2013 to \$2.6 million, or 10.9% of Current Fund revenues, from \$2.3 million, or 9.9% of revenues in 2012. 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 \$5.3 million (22.2%) in 2013. Preliminary 2014 results indicate that unadjusted Current Fund balance increased to approximately \$3.9 million or 15% of revenues while adjusted fund balance increased to \$6.5 million or 25%. The balance sheet gains were caused primarily by conservative budgeting and increased tax revenues from higher assessed values.

Moody's notes that while the borough's finances are strong, its flexibility is somewhat restrained on the revenue side by the 2% statutory tax levy cap. On the expenditure side, the borough's flexibility is also limited by its fixed costs. Fixed costs for debt service, required pension contributions and retiree healthcare payments come to \$4.1 million, or 17% of expenditures.

Liquidity

Liquidity is likely to remain strong in the medium term. Current Fund net cash increased modestly to \$5.1 million, or 21.4% of revenues, in 2013. Total liquidity coverage on the notes, including trust and capital fund cash, comes to approximately 99%.

DEBT AND PENSIONS: MODEST DEBT BURDEN; AVERAGE PENSION OBLIGATIONS

Edgewater's debt burden will remain modest for the medium term. Including this issuance, in 2015, the borough's net direct debt burden was 1.3% of equalized value. Principal amortization is average at 74.7% over the next 10

years. Management has limited plans to issue additional debt.

Debt Structure

All of Edgewater's debt is fixed rate. The notes will be dated July 24, 2015 and mature on July 23, 2016.

Debt-Related Derivatives

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

Pensions and OPEB

Edgewater 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 \$36.5 million, or an average 1.52 times Current Fund revenues. The borough's 2013 contribution to the retirement system was \$880,000 for the Police and Firemen's Retirement System (PFRS) and \$397,000 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 pushing economic expansion. Management is currently negotiating with its Department of Public Works and police unions.

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.

The borough is a frequent participant and has issued short-term notes in each of the last five years, a factor in our assignment of the MIG 1 rating. Management has also historically sold refunding notes with adequate time before note maturity.

KEY STATISTICS

- Equalized Value, 2015: \$3.1 billion
- Equalized Value Per Capita, 2015: \$256,069
- Median Family Income as % of US Median (2012): 189%
- Fund Balance as % of Revenues, Moody's-adjusted for 2014 (unaudited): 25.0%
- 5-Year Dollar Change in adjusted Fund Balance as % of Revenues: 5.58%
- Cash Balance as % of Revenues, 2014 (unaudited): 26.4%
- 5-Year Dollar Change in Cash Balance as % of Revenues: 6.9%
- Institutional Framework: "Aa"
- 5-Year Average Operating Revenues / Operating Expenditures: 1.00x
- Net Direct Debt as % of Equalized Value: 1.33%
- Net Direct Debt / Operating Revenues: 1.57x
- 3-Year Average ANPL as % of Equalized Value: 0.89%
- 3-Year Average ANPL / Operating Revenues: 1.1x

OBLIGOR PROFILE

Edgewater is a borough with a population of approximately 12,000 located in northern New Jersey, within

commuting distance of New York City.

LEGAL SECURITY

Debt service on the GO bonds and notes is secured by the borough's general obligation unlimited ad valorem tax pledge.

USE OF PROCEEDS

The \$11.1 million in bond proceeds will be used to permanently finance various outstanding bond anticipation notes. The \$15.4 million in notes are being issued to redeem outstanding 2014 notes (69%) and to finance various capital improvements (31%).

PRINCIPAL METHODOLOGIES

The principal methodology used in the long-term rating was US Local Government General Obligation Debt published in January 2014. The principal methodology used in the short-term rating was US Bond Anticipation Notes published in April 2014. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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