

CREDIT OPINION

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New Issue

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Princeton (Municipality of) NJ

New Issue - Moody's Assigns Aaa to Princeton, NJ's \$14.9M
 Ref. GO Bonds; Outlook Stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa to Princeton, NJ's \$14.9 million General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the Aaa rating on the municipality's outstanding GO debt. The outlook is stable.

The Aaa reflects the municipality's large tax base, high wealth, strong finances, and the institutional presence of [Princeton University](#) (Aaa stable).

Credit Strengths

- » Healthy reserve levels
- » Large, wealthy tax base
- » Institutional presence of Princeton University

Credit Challenges

- » Above-average debt burden

Rating Outlook

The assignment of a stable outlook reflects the expectation that the municipality's finances, tax base, and wealth levels will all remain strong in the near to medium term.

Factors that Could Lead to an Upgrade

- » Not applicable.

Factors that Could Lead to a Downgrade

- » Significant decrease in Current Fund balance or cash position
- » Substantial increase in direct debt burden

Key Indicators

Exhibit 1

| Princeton, NJ | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|--------------|--------------|--------------|--------------|--------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$ 7,407,215 | \$ 7,226,423 | \$ 7,175,583 | \$ 7,228,833 | \$ 7,429,018 |
| Full Value Per Capita | N/A | N/A | \$ 250,710 | \$ 249,787 | \$ 250,955 |
| Median Family Income (% of US Median) | 251.1% | 229.8% | 264.9% | 261.7% | |
| Finances | | | | | |
| Operating Revenue (\$000) | \$ 61,339 | \$ 62,189 | \$ 59,796 | \$ 58,473 | \$ 58,516 |
| Fund Balance as a % of Revenues | 30.4% | 30.7% | 34.3% | 33.1% | 34.1% |
| Cash Balance as a % of Revenues | 36.8% | 35.1% | 37.7% | 36.6% | 38.4% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$ 116,154 | \$ 114,759 | \$ 107,529 | \$ 101,577 | \$ 97,484 |
| Net Direct Debt / Operating Revenues (x) | 1.9x | 1.8x | 1.8x | 1.7x | 1.7x |
| Net Direct Debt / Full Value (%) | 1.6% | 1.6% | 1.5% | 1.4% | 1.3% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | 0.0x | 0.9x | 1.0x | 1.2x | 1.4x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 0.0% | 0.7% | 0.8% | 0.9% | 1.1% |

Note: All figure from before 2013 are a composite of the Township and Borough of Princeton.

Source: Moody's Investors Service and Princeton Audited Financial Statements

Recent Developments

On October 14, Princeton University announced that it settled litigation claiming the university should pay property taxes on certain properties within the Municipality of Princeton. For the municipality, the agreement extends the university's voluntary payments to the municipality by an additional two years to 2022.

The Municipality of Princeton was created in 2013 by the merger of the Township and Borough of Princeton. Historical numbers from before 2013 are combined operations.

Detailed Rating Considerations

Economy and Tax Base: Sizeable Tax Base with Wealthy Population

Princeton's large and primarily residential tax base will experience moderate growth over the next several years given ongoing construction and the anchoring presence of Princeton University. The \$7.8 billion tax base has a five-year compound annual rate of increase of 1.3%. This total is dramatically understated as it does not include the 25.5% of the base which is tax exempt. The municipality has above-average wealth levels with median family income at 261.7% of the national median or 194.7% of the state median.

Financial Operations, Reserves and Coverage: Strong Finances with Healthy Reserves

The municipality's financial position will remain strong in the medium term as management continues to budget conservatively. Current Fund Balance increased in 2015 to \$15.5 million, or 26.5% of Current Fund revenues, from \$15.3 million, or 26.2% of revenues in 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 municipality's Moody's-adjusted Current Fund Balance increased to \$19.9 million (34.1%) in 2015.

On an adjusted basis, the municipality has seen surpluses in four of the past five years, resulting in a 21% increase in fund balance since 2010 (adjusted for the merger of the Township and Borough of Princeton). These improvements have been achieved primarily via conservative budgeting but also via regular revenue increases and strong tax collections.

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.moody's.com for the most updated credit rating action information and rating history.

Moody's notes that while the municipality'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 municipality's flexibility is also limited by its fixed costs. Fixed costs for debt service, required pension contributions and retiree health care payments come to \$14.1 million, or 24% of revenues.

LIQUIDITY

Liquidity is likely to remain strong in the medium term. Current Fund net cash increased modestly to \$22.5 million, or 38.4% of revenues, in 2015.

Debt, Pensions and Legal Covenants: Above-Average Debt and Pension Burden

Princeton's debt burden will be above-average for the medium term. Including this issuance, in 2016, the municipality's net direct debt burden was 1.3% of equalized value, somewhat above-average for the Aaa category. Management intends to issue small amounts of debt to pay for annual capital projects over the next few years.

DEBT STRUCTURE

All of Princeton's debt is fixed rate.

DEBT-RELATED DERIVATIVES

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

PENSIONS AND OPEB

Princeton has an above-average defined-benefit pension burden, based on Moody's-estimated share of a cost-sharing plan administered by the state. Moody's adjusted net pension liability (ANPL) for the municipality, under our methodology for adjusting reported pension data, is \$81.1 million, or an above-average 1.39 times Current Fund revenues. The municipality's 2015 contribution to the retirement system was \$1.4 million for the Police and Firemen's Retirement System (PFRS) and \$1.2 million 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 municipality's reported liability information, but to improve comparability with other rated entities.

Management and Governance

The municipality recently adopted formal debt and financial policies. Going forward the municipality will maintain an ending Current Fund balance between 15%-20% of budgeted appropriations.

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

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

Use of Proceeds

Proceeds from the bonds will be used to refund the municipality's Series 2007, Series 2009, Series 2010, and Series 2011 bonds for savings. Management expects to achieve net present value savings of \$780,000 or 5.2% of refunded principal with no extension of maturity.

Obligor Profile

Princeton is a high wealth community located in central [New Jersey](#) (A2 negative) anchored by Princeton University. It has a population of 29,600.

Methodology

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

Ratings

Exhibit 2

Princeton (Municipality of) NJ

| Issue | Rating |
|------------------------------------|--------------------|
| General Obligation Refunding Bonds | Aaa |
| Rating Type | Underlying LT |
| Sale Amount | \$14,920,000 |
| Expected Sale Date | 11/07/2016 |
| Rating Description | General Obligation |

Source: Moody's Investors Service

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